News Release

TSXV, Tier 1: "NTS"

OTCQX: "NTSFF"

Nanotech Announces Strong Third Quarter Fiscal 2017 Results

Accelerating Optics Revenues and Margins Generate Positive Cash Flow

VANCOUVER, British Columbia – August 3, 2017 – Nanotech Security Corp. (TSXV: NTS) (OTCQX: NTSFF), ("Nanotech" or the "Company") today released its financial results for the three and nine months ended June 30, 2017. Unless otherwise stated, all dollar amounts are expressed in Canadian dollars.

Highlights during the Third Quarter

- **Revenue increased 151% to $2,906,649 compared to the same period last year.** Optics' revenue increased by 417% to $2,569,016 reflecting increased revenue from paid development contracts and optical thin film ("OTF") deliveries from our Thurso facility. Tactical's revenue decreased 49% to $337,633 due to lower van and equipment sales.
- **Gross margins improved to 78%, up from 47% in the same period last year.** Gross margins continue to reflect strong margins in the Optics division.
- **Cash from operating activities improved to $696,117.** Strong revenues and gross margins resulted in Nanotech achieving its first ever quarter delivering positive cash from operations, a notable milestone and improvement from the $1,137,647 use of cash in same period last year.
- **Cash balance of $13,235,906 at end of the quarter.** The Company completed a bought deal private placement with a syndicate of underwriters pursuant to which the Company issued 11,586,870 common shares at a price of $1.15, for gross proceeds to the Company of $13,324,901.

Recent Developments

- **Paid development contracts are progressing well.** The Company currently derives a significant portion of its revenue from paid authentication development projects with major issuing authorities. During the year, the Company announced a development contract for up to $30.0 million over a period of up to five years. These development activities incorporate both nano-optic and OTF technologies and are focused on developing authentication features for future banknotes. All projects are progressing well, and the Company continues to see development revenue as a significant growth area for the business.
- **OTF opportunities.** The Company continues to work with its European production partner Hueck Folien to become qualified to deliver volume OTF to a specific Asian customer. Overall, management remains optimistic that there is strong customer demand for OTF and that our production partner will fulfill these requirements. The Company also continues to deliver OTF from its Thurso facility and sees significant new opportunities for both facilities as other countries have indicated their plans to incorporate colour-shifting OTF into their future banknotes.
- **Tax Stamps.** The Company's nano-optic images have now become qualified with a customer in India that is currently supplying several billion holographic tax stamps to the Indian government. Management is working with this customer to transition the government from traditional holographic images to licensing Nanotech nano-optic images.

Doug Blakeway, Nanotech's Chairman and CEO, commented, "Our strong revenue and gross margins have led to our first cash flow positive quarter. This positive cash flow enhances our recent $13.3 million bought deal financing and, even after using $1.4 million to repay the convertible debentures, we finished the quarter with a $13.2 million cash balance. With the recent strengthening of our balance sheet and advancing customer relationships, we are very well positioned to continue our growth."

Select Financial Information

All results are reported in Canadian dollars and are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

	Three months ended June 30,				Nine months ended June 30,			
	2017	2016	$ Change	% Change	2017	2016	$ Change	% Change
Revenue	$ 2,906,649	$ 1,157,905	$1,748,744	151%	$ 5,577,262	$ 3,615,365	$1,961,897	54%
Gross profit	2,256,542	543,711	1,712,831	315%	3,938,630	1,785,133	2,153,497	121%
Gross profit %	78%	47%			71%	49%		
Net loss	(905,268)	(1,957,434)	1,052,166	(54%)	(4,453,438)	(6,153,779)	1,700,341	(28%)
Net loss per share								
Basic and diluted	(0.02)	(0.04)			(0.08)	(0.12)		
Weighted average number of common shares								
Basic and diluted	60,027,320	53,612,215			56,006,062	53,470,153		
Net cash provided by (used in) operating activities	696,117	(1,137,647)	1,833,764	161%	(1,344,960)	(3,023,063)	1,678,103	56%

	June 30, 2017	September 30, 2016	$ Change	% Change
Total assets	$ 33,162,188	$ 24,511,586	$ 8,650,602	35%
Total liabilities	4,900,381	8,089,503	(3,189,122)	(39%)
Total equity	28,261,807	16,422,083	11,839,724	72%

Revenue

Consolidated revenues for the three months ended June 30, 2017 increased by $1,748,744 or 151% to $2,906,649 compared to $1,157,905 in the same period last year. Optics revenue increased by $2,071,902 or 417% to $2,569,016 compared to $497,114 last year representing increased revenue from paid development contracts and OTF deliveries from our Thurso facility. Tactical's revenue decreased by $323,158 or 49% to $337,633 compared to $660,791 in the previous year due to lower van and equipment sales.

Customer paid development revenues continue to grow and the projects are progressing well as we continue to advance our optic based technologies into the development of new security features for future banknotes. In addition, management is beginning to see new OTF opportunities and is working with several partners to expand our customer base to provide further growth. Management continues to work with our production partner Hueck Folien to demonstrate their ability to produce large volume OTF for several customer opportunities.

Consolidated revenues for the nine months ended June 30, 2017 increased by $1,961,897 or 54% to $5,577,262 compared to $3,615,365 in the same period last year. Optics revenue increased by $2,970,601 or 174% to $4,682,131 compared to $1,711,530 last year primarily due to increased revenue from paid development contracts. Tactical's revenue was lower by $1,008,704 or 53% to $895,131 compared to $1,903,835 in the same period last year due to lower van and equipment sales.

Overall revenue growth reflected a strong increase in Optics revenue that was significantly offset by Tactical's poor performance. Management is reviewing the strategic options available to Tactical including generating new revenue opportunities, selling the business or significantly altering the operation. Management expects to make strategic decisions on Tactical within the next four months.

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Gross Margin

Gross margin for the three months ended June 30, 2017 increased by $1,712,831 or 315% to $2,256,542 compared to $543,711 in the same period last year. Overall, the gross margin percentage improved to 78% for the three months ended June 30, 2017, an increase from 47% in the same period last year. The increased gross margins reflect continued strong margins in the Optics division.

Gross margin for the nine months ended June 30, 2017 increased by $2,153,497 or 121% to $3,938,630 compared to $1,785,133 in the same period last year. Overall, the gross margin percentage improved to 71% for the nine months ended June 30, 2017, an increase from 49% in the same period last year. The increased gross margins continue to reflect strong margins in the Optics division.

Operating Costs

Research and development expenditures for the three months ended June 30, 2017 decreased by $68,677 or 12% to $483,511 compared to $552,188 in the same period last year due to a larger portion of salaries and other expenses being allocated to cost of sales as a result of increased development projects.

Research and development expenditures for the nine months ended June 30, 2017 decreased by $388,402 or 22% to $1,389,172 compared to $1,777,574 in the same period last year, again due to a larger portion of salaries and other expenses being allocated to cost of sales as a result of increased development projects.

General and administration expenditures for the three months ended June 30, 2017 were $790,761, an increase of $138,910 or 21% compared to $651,851 in the same period last year which reflects higher utilities costs at our Thurso production facility and an increase in stock based compensation.

General and administration expenditures for the nine months ended June 30, 2017 were $2,207,257, an increase of $229,324 or 12% compared to $1,977,933 in the same period last year which again reflects higher utilities costs at our Thurso production facility and an increase in stock based compensation.

Sales and marketing expenditures for the three months ended June 30, 2017 were $573,330, a decrease of $24,501 or 4% compared to $597,831 in the same period last year. The decrease mainly relates to a reduction in travel and marketing expenses in the Optics division along with lower sales commissions in the Tactical division.

Sales and marketing expenditures for the nine months ended June 30, 2017 were $1,624,139, a decrease of $175,573 or 10% compared to $1,799,712 in the same period last year. The decrease again mainly relates to a reduction in travel and marketing expenses in the Optics division along with lower sales commissions in the Tactical division.

Depreciation and amortization expenditures for the three months ended June 30, 2017 were $666,766, compared to $766,096 in the same period last year, reflecting the Company's declining balance depreciation policy and fewer fixed asset additions in the current period.

Depreciation and amortization expenditures for the nine months ended June 30, 2017 were $2,087,159, compared to $2,307,334 in the same period last year, again reflecting the Company's declining balance depreciation policy and fewer fixed asset additions in the current period.

Other expenses for the three months ended June 30, 2017 were $647,442, an increase of $551,466 compared to $95,976 in the same period last year. The increase includes $540,828 of interest expense representing $105,557 of interest paid, $435,271 of accretion that was a result of the Company's decision to repay the convertible debentures and an increased foreign exchange loss in the current period.

Other expenses for the nine months ended June 30, 2017 were $1,084,341, an increase of $845,185 compared to $239,156 in the same period last year. The increase includes $945,827 of interest expense representing $355,969 of interest paid, $589,858 of accretion that was a result of the Company's decision to repay the convertible debentures and a decreased foreign exchange loss in the current period.

Net Loss

The net loss for the three months ended June 30, 2017 was $905,268 compared to $1,957,434 during the same period last year. The decrease in net loss reflects an increase in revenues, reduced expenses and higher margins.

The net loss for the nine months ended June 30, 2017 was $4,453,438 compared to $6,153,779 during the same period last year. The decrease in net loss also reflects an increase in revenues, reduced expenses and higher margins.

Capital Resources

The Company ended the quarter with $13,235,906 in cash and cash equivalents, up from $3,312,691 at September 30, 2016. On May 18, 2017, the Company completed a bought deal private placement with a syndicate of underwriters whereby a total of 11,586,870 common shares of the Company were issued at a price of $1.15 per share, for total gross proceeds of $13,324,901.

The Company had convertible debentures outstanding with a face value amounting to $4,185,000 with a maturity date of May 31, 2018. The convertible debentures accrued interest at a rate of 12% per annum payable quarterly in arrears and were convertible into common shares of the Company at a price of $1.25 per share. On May 18, 2017, the Company provided notice to the debenture holders of the Company's intention to repay the convertible debentures on June 21, 2017. Most debenture holders elected to convert their debentures into common shares at $1.25 per share. As a result, the Company issued 2,252,000 common shares valued at $2,815,000. The remaining $1,370,000 was repaid.

The Company has a note payable outstanding of $3,000,000 as at June 30, 2017. The note payable was used to finance some of the real estate assets acquired on the acquisition of Fortress Optical Features Ltd., and is secured by the assets of the Company. It bears interest at 4% per annum and the principal is due in September 2017. Monthly interest payments are required prior to the maturity date. The Company plans to repay or refinance the note.

Management has reviewed its projected funding requirements and expects that, through the generation and collection of revenues and/or raising additional financing, the Company will maintain sufficient liquidity.

ADDITIONAL INFORMATION

Outlook

Nanotech is a leader in next-generation anti-counterfeiting products. These products have brand protection and enhancement applications across a wide range of markets including banknotes, secure government documents, commercial branding, and the pharmaceutical industry. Nanotech is initially focusing its efforts on the banknote market due to its high margins and established customer base. Management continues to believe that the Company is well positioned to supply OTF, however the additional time required for product acceptance and integration into their production processes has taken longer than anticipated. With the recent signing of the $30 million paid development contract, the Company is focusing on further developing business with its established customer base and, as a result, is well positioned to expand its authentication development contract revenue and other nano-optic and OTF opportunities in the years ahead.

In 2017, management established a goal to double its revenue and make significant progress towards becoming cash flow positive. During the most recent quarter, the Company delivered its first ever quarter generating positive cash flow from operations and is on track to more than double Optics' revenue for the year. The Company's legacy business segment, Tactical, has had a negative impact with both a significant reduction in revenue and the generation of a loss of $473,002. Looking ahead to the fourth quarter, management expects to make strategic decisions on Tactical and deliver strong financial results consistent with this past quarter. Looking ahead to 2018, the Company is well positioned to continue to expand its development revenue, begin supplying high volume OTF and begin receiving licensing revenue from tax stamps.

Achieving these results is not certain and involves known and unknown risks that may cause actual results to differ materially from this goal. These risks and uncertainties include, among other things, risks related to uncertainty of amount and timing of purchase orders, the ability of Hueck Folien to successfully deliver volume production, our ability to expand our Optics development revenue and our ability to maintain sufficient liquidity through June 30, 2018 to facilitate any business ramp-up. These and other risk factors are further discussed under the "Business Risks and Uncertainties" segment of the September 30, 2016 management's discussion and analysis.

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Nanotech Security Corp.

Condensed Consolidated Statements of Operations and Comprehensive Loss
(Unaudited)

Three and nine months ended June 30, 2017 and 2016
(In Canadian dollars)

	Three months ended June 30, 2017	Three months ended June 30, 2016	Nine months ended June 30, 2017	Nine months ended June 30, 2016
Revenue	$ 2,906,649	$ 1,157,905	$ 5,577,262	$ 3,615,365
Cost of sales	650,107	614,194	1,638,632	1,830,232
Gross profit	2,256,542	543,711	3,938,630	1,785,133
Expenses				
Research and development	483,511	552,188	1,389,172	1,777,574
General and administration	790,761	651,851	2,207,257	1,977,933
Sales and marketing	573,330	597,831	1,624,139	1,799,712
Depreciation and amortization	666,766	766,096	2,087,159	2,307,334
	2,514,368	2,567,966	7,307,727	7,862,553
Loss before other expenses	(257,826)	(2,024,255)	(3,369,097)	(6,077,420)
Other expenses				
Foreign exchange loss	84,022	27,067	56,841	103,283
Finance expense	563,420	68,909	1,027,500	135,873
	647,442	95,976	1,084,341	239,156
Loss before income taxes	(905,268)	(2,120,231)	(4,453,438)	(6,316,576)
Deferred income tax recovery	-	162,797	-	162,797
Net loss	(905,268)	(1,957,434)	(4,453,438)	(6,153,779)
Other comprehensive loss:				
Items that may be subsequently reclassified to earnings:				
Unrealized foreign exchange gain on translation of foreign operation	37,817	5,665	23,715	38,912
Total comprehensive loss for the period	$ (867,451)	$ (1,951,769)	$ (4,429,723)	$ (6,114,867)
Loss per share				
Basic and diluted	$ (0.02)	$ (0.04)	$ (0.08)	$ (0.12)
Weighted average number of common shares				
Basic and diluted	60,027,320	53,612,215	56,006,062	53,470,153

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Condensed Consolidated Statements of Financial Position
(Unaudited)

(In Canadian dollars)

	June 30, 2017	September 30, 2016
Assets		
Current assets:		
Cash and cash equivalents	$ 13,235,906	$ 3,312,691
Accounts receivable	1,416,279	597,414
Inventory	373,934	385,753
Prepaid expenses and other assets	147,961	127,719
	15,174,080	4,423,577
Property, plant and equipment	16,259,341	17,338,312
Intangible assets	340,309	1,361,239
Goodwill	1,388,458	1,388,458
	$ 33,162,188	$ 24,511,586
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 1,822,266	$ 1,395,568
Note payable	3,000,000	3,000,000
	4,822,266	4,395,568
Non-current liabilities:		
Convertible debentures	-	3,595,142
Tenant inducement	78,115	98,793
	4,900,381	8,089,503
Shareholders' equity		
Share capital	60,858,578	45,210,507
Contributed Surplus	3,106,507	2,485,131
Deficit	(35,572,483)	(31,119,045)
Accumulated other comprehensive loss	(130,795)	(154,510)
	28,261,807	16,422,083
	$ 33,162,188	$ 24,511,586

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Nanotech Security Corp.

Condensed Consolidated Statements of Cash Flows
(Unaudited)

Three and nine months ended June 30, 2017 and 2016
(in Canadian Dollars)

	Three months ended June 30,		Nine months ended June 30,	
	2017	2016	2017	2016
Cash flows provided by (used in):				
Operating activities:				
Net loss	$(905,268)	$(1,957,434)	$(4,453,438)	$(6,153,779)
Items not involving cash:				
Depreciation and amortization	733,245	772,364	2,196,839	2,320,433
Deferred income taxes	-	(162,797)	-	(162,797)
Share-based compensation	230,416	187,263	744,663	508,233
Accretion of convertible debentures	435,271	8,856	589,858	8,856
Other	(6,893)	(6,893)	(22,292)	(20,678)
Non-cash working capital changes	209,346	20,994	(400,590)	476,669
Cash provided by (used in) operating activities	696,117	(1,137,647)	(1,344,960)	(3,023,063)
Investing activities:				
Purchase of property and equipment, net of disposal	(6,837)	42,664	(95,402)	(166,205)
Cash provided by (used in) investing activities	(6,837)	42,664	(95,402)	(166,205)
Financing activities:				
Issuance of shares for options exercised	-	-	223,000	180,000
Proceeds on financing, net of costs	12,486,784	-	12,486,784	-
Proceeds on issuance of convertible debenture, net of costs	-	4,120,289	-	4,120,289
Repayment of convertible debentures	(1,370,000)	-	(1,370,000)	-
Cash provided by financing activities	11,116,784	4,120,289	11,339,784	4,300,289
Effect of foreign exchange on cash and cash equivalents	38,328	5,862	23,793	39,959
Decrease in cash and cash equivalents	11,844,392	3,031,168	9,923,215	1,150,980
Cash and cash equivalents, beginning of period	1,391,514	1,141,740	3,312,691	3,021,928
Cash and cash equivalents, end of period	$ 13,235,906	$ 4,172,908	$ 13,235,906	$ 4,172,908

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Conference Call Details:

DATE:	Thursday, August 3, 2017	Time: 5:00 PM Eastern Daylight Savings Time
DIAL IN NUMBER:	Toll free (Canada and US): 1-888-430-8678 Conference ID: 2291594	Alternate number: 1-719-457-2619
TAPED REPLAY:	Toll free (Canada and US): 1-844-512-2921 Replay available until September 3, 2017 Replay Pin number: 2291594	Alternate number: 1-412-317-6671 Replay Pin number: 2291594
WEBCAST:	**http://public.viavid.com/index.php?id=125655**	

FORWARD-LOOKING STATEMENTS

The discussion and analysis in this news release contains forward-looking statements concerning anticipated developments in the Company's operations in future periods, the adequacy of Nanotech's financial resources, and the events or conditions that may occur in the future. Forward-looking statements are frequently, but not always, identified by words such as "expects", "anticipates", "believes", "intends", "estimates", "predicts", "potential", "targeted" "plans", "possible" and similar expressions, or statements that events, conditions, or results "will", "may", "could" or "should" occur or be achieved.

These forward-looking statements include, without limitation, statements about the Company's market opportunities, strategies, competition, and the Company's views that its optics based technologies will continue to show promise for large scale production. Other forward-looking statements imply that the Company will remain capable of being financed and/or will be able to partner development until profitability is eventually realized. The principal risks related to these forward-looking statements are that the Company's products receive market acceptance, that its intellectual property claims will be sufficiently broad or enforceable to provide the necessary protection or attract the necessary capital.

These forward-looking statements are based on the beliefs, expectations and opinions of management on the date the statements are made. Consequently, all forward-looking statements made in the discussion and analysis of the financial conditions and results of operations or the documents incorporated by reference, are qualified by this cautionary statement and there can be no certainty that actual results or developments the Company anticipates will be realized. For additional information with respect to certain of these risks or factors reference should be made to the "Business Risks and Uncertainties" section of the management's discussion and analysis and notes to the consolidated financial statements for the year ended September 30, 2016, as well as with the Company's continuous disclosure materials filed from time to time with Canadian securities regulatory authorities, which are available online at www.sedar.com. Nanotech disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, other than as required by law. Caution needs to be used when taking forward-looking statements into account when evaluating the Company.

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About Nanotech Security

Nanotech designs, manufactures and markets nano-optic OVDs and OTF products. These products have brand protection and enhancement applications across a wide range of markets including banknotes, secure government documents, commercial branding, and the pharmaceutical industry. The Company is initially focusing its efforts on the banknote market due to its high margins and its established customer base.

The Company's nano-optic technology employs arrays of billions of nano-indentations that are impressed or embossed onto a substrate material such as polymer, paper, metal, or fabric. By using sophisticated algorithms to direct an electron beam, the Company creates visual images with colour-shifting effects such as 3D, high-definition, and motion-impression, and can also display distinct colours including skin tones, white, and black, which are not possible using current holographic technology.

Additional information about Nanotech can be found at the Company's website www.nanosecurity.ca, the Canadian disclosure filings website www.sedar.com or the OTCMarkets disclosure filings website www.otcmarkets.com.

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