NANOTECH

March 31, 2018

Quarterly Report

For purposes of this management's discussion and analysis ("MD&A"), "Nanotech", the "Company", "we", or "us" refers to Nanotech Security Corp. and its subsidiaries. This quarter or the current quarter means the three months ended March 31, 2018. Year to date means the six months ended March 31, 2018.

ADVISORY

This MD&A dated May 9, 2018, should be read in conjunction with the cautionary statement regarding forward-looking statements below and the Company's condensed consolidated interim financial statements for the three and six months ended March 31, 2018 as well as with the Company's audited consolidated financial statements and MD&A for the year ended September 30, 2017. The results reported herein have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and are presented in Canadian dollars. All quarterly information disclosed in the MD&A is unaudited.

Additional information relating to the Company is filed on SEDAR at www.sedar.com.

FORWARD-LOOKING STATEMENTS

The following discussion and analysis of the financial conditions and results of operations 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 and 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 this 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 MD&A and the notes to the audited consolidated financial statements for the year ended September 30, 2017, 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.

GENERAL OVERVIEW

Nanotech is incorporated under the laws of British Columbia with common shares listed on the TSX Venture Exchange (trading symbol: NTS) and quoted in the United States on the OTCQX Market (trading symbol: NTSFF). The Company's head office is located at #505 - 3292 Production Way, Burnaby, BC, Canada V5A 4R4. The Company's registered and records office is #1500 - 1055 West Georgia, Vancouver, BC, Canada V6E 4N7.

Nanotech researches, creates, and produces nano-optic structures and colour-shifting materials used in authentication and brand enhancement applications across a wide range of markets including banknotes, tax stamps, secure government documents, commercial branding, and the pharmaceutical industry.

The Company's KolourOptik® 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, perceived movement, and can also display high-definition colours including skin tones, and whites and blacks, which are not possible using holographic technology.

The Company's optical thin film ("OTF") security features are manufactured using precision engineered nanometer thick layers of metals and ceramics to form filters designed to uniquely manipulate visible and non-visible light. This unique manipulation of light properties is used to create specialized security features in the form of threads, stripes and patches that are applied to banknotes and other secure documents. By using sophisticated electron beam and sputtered deposition methods, Nanotech precisely controls the construction and inherent properties to provide custom tailored colour-shifting solutions. An individual looking at these threads, stripes and patches sees an obvious colour-shift (e.g. green to magenta) when it is tilted or rotated.

On September 21, 2017, the directors of the Company made the determination that it would pursue the possible sale of its subsidiary, Tactical Technologies Inc. ("Tactical"), to a third party. The Company is actively pursuing strategic options, including potential purchasers or closing the operation. The Company has restructured Tactical's operations and it currently operates with four employees and a limited cash burn. At September 30, 2017, Tactical was classified as a separate disposal group held for sale and as a discontinued operation. Accordingly, the Company's Comparative Condensed Consolidated Interim Statements of Operations and Comprehensive Loss have been restated to exclude the discontinued operations for the three and six months ended March 31, 2017.

RESULTS OF OPERATIONS

Select financial information for the three and six months ended March 31, 2018 and 2017:

Select Financial Information	Three months ended March 31, 2018	Three months ended March 31, 2017	Six months ended March 31, 2018	Six months ended March 31, 2017
Revenue	$ 1,943,095	$ 1,418,644	$4,176,322	$ 2,113,115
Cost of sales	497,704	482,844	1,061,555	599,313
	1,445,391	935,800	3,114,767	1,513,802
Expenses				
Research and development	392,489	388,803	738,676	763,799
General and administration	690,494	642,835	1,232,113	1,185,536
Sales and marketing	489,767	519,632	946,517	945,136
Depreciation and amortization	408,655	693,189	718,698	1,414,026
	1,981,405	2,244,459	3,636,004	4,308,497
Loss from continuing operations before other expenses	(536,014)	(1,308,659)	(521,237)	(2,794,695)
Other (income) expenses	(203,084)	250,221	(284,127)	436,946
Net loss from continuing operations	(332,930)	(1,558,880)	(237,110)	(3,231,641)
Net income (loss) from discontinued operations	48,220	(136,010)	48,220	(316,529)
Net loss	$ (284,710)	$ (1,694,890)	$ (188,890)	$ (3,548,170)
Adjusted EBITDA(1)	$ 132,955	$ (267,640)	$ 592,600	$ (823,221)

(1)Adjusted EBITDA is a non-IFRS measure as described in the Non-IFRS Financial Measures section of this MD&A.

Revenue

The Company currently derives a significant portion of its revenue from paid authentication development projects with major issuing authorities. During the year ended September 30, 2017, the Company disclosed 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.

Revenues for the three months ended March 31, 2018 increased by $524,451 or 37% to $1,943,095, compared to $1,418,644 in the same period last year. Revenue growth was primarily due to increased revenue from the Thurso operation and paid development contracts.

Revenues for the six months ended March 31, 2018 increased by $2,063,207 or 98% to $4,176,322, compared to $2,113,115 in the same period last year. Revenue growth was primarily due to an increase in paid development activity, as well as increased revenue from the Thurso operation.

Gross Margin

Gross margin for the three months ended March 31, 2018 increased by $509,591 or 54% to $1,445,391, compared to $935,800 in the same period last year. Overall, the gross margin percentage was 74% for the three months ended March 31, 2018, up from 66% in the same period last year. This increase reflects a shift to higher margin development projects.

Gross margin for the six months ended March 31, 2018 increased by $1,600,965 or 106% to $3,114,767, compared to $1,513,802 in the same period last year. Overall, the gross margin percentage was 75% for the six months ended March 31, 2018, similar to the same period last year at 72%.

Research and Development

Research and development expenditures for the three months ended March 31, 2018 were $392,489 which is consistent with $388,803 in the same period last year.

Research and development expenditures for the six months ended March 31, 2018 decreased by $25,123 or 3% to $738,676, compared to $763,799 in the same period last year. Salaries allocated to R&D expense decreased in the current year, as certain development efforts involved capital projects, resulting in the capitalization of $97,353 of labour costs. This reduction in salaries expense was partially offset by increased investment in patent applications.

General and Administration

General and administration expenditures for the three and six months ended March 31, 2018 were $690,494 and $1,232,113, respectively, compared to $642,835 and $1,185,536 in the same periods last year, respectively. These increases were due to salaries for additional staff hired in the second quarter of 2018 and higher utilities costs at our Thurso operation.

Sales and Marketing

Sales and marketing expenditures for the three months ended March 31, 2018 were $489,767, a decrease of $29,865 or 6%, compared to $519,632 in the same period last year. This mainly relates to a decrease in non-cash share-based compensation expense in the current period.

Sales and marketing expenditures for the six months ended March 31, 2018 were $946,517, consistent with $945,136 in the same period last year.

Depreciation and Amortization

Depreciation and amortization expenditures for the three and six months ended March 31, 2018 were $408,655 and $718,698, respectively, compared to $693,189 and $1,414,026 in the same periods last year, respectively. The decrease in both periods reflects the Company's declining balance depreciation policy and the intangible assets being completely amortized as at September 30, 2017.

Other (Income) Expenses

Other income for the three months ended March 31, 2018 was $203,084, an increase of $453,305, compared to other expenses of $250,221 in the same period last year. The increase is primarily due to the repayment of the convertible debentures and long-term debt in 2017, which reduced interest expense by $232,519 in the current quarter compared to the same period last year, while increased cash on hand in the current quarter resulted in a $26,537 increase in interest income. In addition, foreign exchange gains recorded during the quarter were $194,071 higher than in the second quarter of 2017.

Other income for the six months ended March 31, 2018 was $284,127, an increase of $721,073, compared to other expenses of $436,946 in the same period last year. The increase is primarily due to the repayment of the convertible debentures and long-term debt in 2017, which reduced interest expense by $465,138 for the year to date compared to the same period last year, while increased cash on hand resulted in a $59,137 increase in interest income for the year to date. In addition, foreign exchange gains recorded for the year to date were $196,678 higher than in the same period last year.

Adjusted EBITDA

Adjusted EBITDA for the three and six months ended March 31, 2018 was $132,955 and $592,600, respectively, compared to negative $267,640 and negative $823,221 during the same periods last year, respectively. The improvement reflects an increase in revenues and gross margin.

Net Income (Loss) from Discontinued Operations

Net income from discontinued operations for the three months ended March 31, 2018 was $48,220, compared to a net loss of $136,010 during the same period last year. The increase in net income was primarily due to an increase in revenue associated with the delivery of surveillance vans during the quarter, which did not occur in the second quarter of 2017. In addition, there was a reduction in overall expenses in the current quarter as Tactical was restructured following the Company's decision to sell or close the business.

Net income from discontinued operations for the six months ended March 31, 2018 was $48,220, compared to a net loss of $316,529 during the same period last year. The increase in net income was primarily due to an increase in revenue associated with the delivery of surveillance vans during the year to date, which did not occur in the same period last year. In addition, there was a reduction in overall expenses for the year to date as Tactical was restructured following the Company's decision to sell or close the business.

Net Loss

Net loss for the three months ended March 31, 2018 was $284,710, compared to $1,694,890 during the same period last year. The decrease in net loss reflects an increase in revenues in combination with reduced depreciation and amortization expense and lower interest expense.

Net loss for the six months ended March 31, 2018 was $188,890, compared to $3,548,170 during the same period last year. The decrease in net loss reflects an increase in revenues in combination with reduced depreciation and amortization expense and lower interest expense.

QUARTERLY RESULTS

	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016
($ thousands, except per share data)								
Revenue	$ 1,943	$ 2,233	$ 2,662	$ 2,569	$ 1,419	$ 694	$ 1,177	$ 497
Net income (loss) from continuing operations	(333)	96	127	(749)	(1,559)	(1,673)	(1,566)	(1,976)
Net income (loss)	(285)	96	(301)	(905)	(1,695)	(1,853)	(1,677)	(1,957)
Adjusted EBITDA[(1)]	133	460	1,134	858	(268)	(556)	(444)	(1,088)
Basic earnings (loss) per share:								
Continuing operations	0.00	0.00	0.00	(0.01)	(0.03)	(0.03)	(0.03)	(0.04)
Net income (loss)	0.00	0.00	0.00	(0.02)	(0.03)	(0.03)	(0.03)	(0.04)
Diluted earnings (loss) per share:								
Continuing operations	0.00	0.00	0.00	(0.01)	(0.03)	(0.03)	(0.03)	(0.04)
Net income (loss)	0.00	0.00	0.00	(0.02)	(0.03)	(0.03)	(0.03)	(0.04)

[(1)]Adjusted EBITDA is a non-IFRS measure as described in the Non-IFRS Financial Measures section of this MD&A.

Revenue and EBITDA were impacted by the timing of development contract revenue in the quarters presented, as there is an inherent variability in development contract revenue with government organizations. Net income (loss) from continuing operations and net income (loss) were further affected by the repayment of the convertible debentures in the third quarter of 2017 and long-term debt in the fourth quarter of 2017, which reduced interest expense. There are no seasonal effects in the Company's business over the quarters presented.

RELATED PARTY TRANSACTIONS

For the three and six months ended March 31, 2018 and 2017, the Company had no transactions with related parties as defined in IAS 24, *Related Party Disclosures*, except those pertaining to transactions with key management personnel in the ordinary course of their employment, or as disclosed below.

(a) Remuneration of key management personnel:

	Three months ended March 31,		Six months ended March 31,	
	2018	2017	2018	2017
Salaries, accrued bonuses, and employee benefits	$ 300,926	$ 247,556	$ 602,341	$ 470,922
Share-based payments	184,667	249,748	258,488	397,535
	$ 485,593	$ 497,304	$ 860,829	$ 868,457

(b) As of March 31, 2018, amounts owing to a company controlled by an officer and director of the Company included in accounts payable and accrued liabilities were $106,003 (September 30, 2017 - $262,854).

(c) Legal and professional fees, taxes and disbursements totaling $34,430 for the three months ended March 31, 2018 (March 31, 2017 - $27,001) and $54,469 for the six months ended March 31, 2018 (March 31, 2017 - $61,554) were incurred with a law firm of which a director of the Company is a partner. As of March 31, 2018, amounts owing to this company included in accounts payable and accrued liabilities were $75,108 (September 30, 2017 - $93,219).

The above transactions are in the normal course of business and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

LIQUIDITY AND CAPITAL RESOURCES

The Company's principal sources of liquidity are cash provided by operations, including collection of accounts receivable, and access to equity capital resources. The Company's primary short-term cash requirement is to fund any potential shortfall from operations, working capital, and capital expenditures. Cash is also used to finance other long-term strategic business initiatives.

Summary of Statements of Cash Flows

	Three months ended March 31,		Six months ended March 31,	
	2018	2017	2018	2017
Cash provided by (used in) continuing operations	$ 250,491	$ (851,639)	$ 363,822	$(1,626,167)
Cash provided by (used in) discontinued operations	2,307	(199,909)	97,636	(413,729)
Cash provided by (used in) operating activities	252,798	(1,051,548)	461,458	(2,039,896)
Cash used in investing activities	(819,366)	(73,946)	(987,907)	(90,179)
Cash provided by financing activities	-	200,000	-	223,000
Effect of foreign exchange on cash and cash equivalents	(45,643)	10,867	(70,768)	(14,102)
Cash and cash equivalents, beginning of period	10,898,913	2,306,141	10,883,919	3,312,691
Cash and cash equivalents, end of period	$ 10,286,702	$ 1,391,514	$10,286,702	$ 1,391,514

Operating Activities

Cash provided by operating activities was $252,798 for the three months ended March 31, 2018, compared to cash used in operating activities of $1,051,548 for the same period last year. This improvement was a result of increased development revenue and a decrease in cash used in working capital.

Cash provided by operating activities was $461,458 for the six months ended March 31, 2018, compared to cash used in operating activities of $2,039,896 for the same period last year. This improvement was a result of increased development revenue.

Investing Activities

Cash used in investing activities was $819,366 for the three months ended March 31, 2018, compared to cash used in investing activities of $73,946 in the same period last year reflecting purchases related to a new electron beam lithography system ("EBL"), a revenue-generating steam boiler for our Thurso facility, and a research and development casting line.

Cash used in investing activities was $987,907 for the six months ended March 31, 2018, compared to cash used in investing activities of $90,179 in the same period last year reflecting purchases related to the EBL, steam boiler and casting line.

Financing Activities

Cash provided by financing activities was $nil for the three months ended March 31, 2018, compared to $200,000 during the same period last year related to the exercise of stock options.

Cash provided by financing activities was $nil for the six months ended March 31, 2018, compared to $223,000 during the same period last year related to the exercise of stock options.

Capital Resources

The Company's objectives when managing capital are to safeguard the ability to continue as a going concern, to provide adequate return to shareholders, to meet external capital requirements, and to preserve financial flexibility in order to benefit from potential opportunities that may arise. Our principal cash requirements are for operations, working capital, and capital expenditures.

The Company's officers are responsible for managing the Company's capital and do so through quarterly meetings and regular reviews of financial information. The Board of Directors is responsible for overseeing this process. In managing its capital, the Company considers changes in economic conditions, risks that impact consolidated operations, and future significant capital investment opportunities. For the six months ended March 31, 2018, there were no changes in our approach to capital management.

As at March 31, 2018, cash and cash equivalents amounted to $10,286,702, compared to $10,883,919 as at September 30, 2017.

The Company had no lines of credit and no exposure to asset backed commercial paper.

The Company had commitments of $852,607 as at March 31, 2018.

Management has reviewed its projected funding requirements and expects that, through the generation and collection of revenues, the Company will maintain sufficient liquidity to meet its requirements through March 31, 2019.

Non-IFRS Financial Measures

In addition to results reported in accordance with IFRS, the Company discloses Adjusted EBITDA as a supplemental indicator of its financial performance.

The Company defines Adjusted EBITDA as net income (loss) excluding the impact of interest and financing costs (net of interest income), foreign exchange gain (loss), income taxes,depreciation and amortization, share-based compensation, and net income (loss) from discontinued operations. The Company believes Adjusted EBITDA is a useful measure because it provides information to management about the operating and financial performance of the Company and its ability to generate operating cash flow to fund future working capital needs, and fund future growth. Adjusted EBITDA may also be used by investors and analysts for the purpose of valuing the Company.

Readers are cautioned that these non-IFRS definitions are not recognized measures under IFRS, do not have standardized meanings prescribed by IFRS, and should not be construed to be alternatives to net earnings determined in accordance with IFRS or as indicators of performance or liquidity or cash flows. The Company's method of calculating these measures may differ from methods used by other entities and accordingly our measures may not be comparable to similarly titled measures used by other entities or in other jurisdictions. The Company uses these measures because it believes they provide useful information to both management and investors with respect to the operating and financial performance of the Company.

	Three months ended March 31,		Six months ended March 31,	
	2018	2017	2018	2017
Net loss	$ (284,710)	$ (1,694,890)	$ (188,890)	$ (3,548,170)
Finance (income) expense	(26,226)	233,008	(60,268)	464,127
Foreign exchange (gain) loss	(176,858)	17,213	(223,859)	(27,181)
Depreciation and amortization	423,635	730,723	780,398	1,457,227
Share-based compensation	245,334	310,296	333,439	514,247
Net (income) loss from discontinued operations	(48,220)	136,010	(48,220)	316,529
Adjusted EBITDA	$ 132,955	$ (267,640)	$ 592,600	$ (823,221)

Financial Instruments

The Company considers the management of financial risk to be an important part of its overall corporate risk management policy. The nature and extent of risks arising from financial instruments and their related risk management are described in note 12 of the audited consolidated financial statements for the year ended September 30, 2017. In the three and six months ended March 31, 2018, there was no material change to the nature of the risks arising from our classification of financial instruments, or related risk management objectives.

CAPITAL STRUCTURE AND OUTSTANDING SHARE DATA

The Company maintains an equity incentive plan consisting of a stock option plan and a restricted share unit ("RSU") plan to grant options and RSUs to eligible participants. The obligations under the RSU plan can be settled at the Company's discretion through either cash or issuance of common shares. The Company intends to settle the obligation through the issuance of common shares.

	March 31, 2018		September 30, 2017	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Common shares outstanding	68,395,825		68,395,825	
Options				
Outstanding	2,507,500	$ 1.36	2,040,000	$ 1.35
Exercisable	2,053,500	$ 1.38	1,770,125	$ 1.37
RSUs				
Outstanding	743,532	N/A	529,560	N/A

As at May 9, 2018, the Company has 68,395,825 common shares issued and outstanding. There are no preferred shares issued and outstanding.

ADDITIONAL INFORMATION

Outlook

With a strong balance sheet, including $10,286,702 in cash and no debt, management continues to be on track to deliver strong annual revenue growth between 20% and 40% and 15% to 20% Adjusted EBITDA margins. A further update on the goals that management established for the 2018 fiscal year is as follows:

1. **Grow revenues by 20% to 40% (which excludes any potential volume OTF order).** Revenues have grown 98% in the first half of fiscal 2018 compared to the same period last year;
2. **Begin to collect licensing revenue from the tax stamp and commercial markets.** We have entered into distribution agreements in India and are pursuing both tax stamp and commercial market revenue from this geographic market;
3. **Maintain a strong focus on earnings with a target of 15% to 20% Adjusted EBITDA margin.** Adjusted EBITDA margin for the first six months of fiscal 2018 was 14%;
4. **Continue to pursue a volume OTF partnering opportunity with Hueck Folien for banknotes**. Management continues to support manufacturing partner Hueck Folien in an ongoing effort to improve the quality of its production;
5. **Invest in several key marketing hires to ensure internal resources are in place to develop the products, sales channels, and marketing materials necessary to penetrate commercial markets**. Joe Vosburgh joined the Company as Vice President Marketing, bringing over 20 years experience in the successful development and commercialization of breakthrough technologies. Monika Russell, who has 15 years public company experience, also joined as Vice President Finance, which will allow Troy Bullock, our President and CFO, to expand his responsibilities; and

6. **Continue to open new corporate development opportunities by partnering with established companies to enable Nanotech to enter new markets**. The Company announced a distribution agreement appointing Holostik India Limited and Kumbhat Holographics Co. Limited as Nanotech's authorized distributors and converters for the non-banknote market in India.

Nanotech is well positioned financially to pursue opportunities in the banknote, tax stamp and commercial markets in the years ahead. In addition to developing further business with its established customer base, including the expansion of its authentication development contract revenue, the Company continues to develop new nano-optic and OTF opportunities.

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, the loss of a key customer, risks related to uncertainty of amount and timing of purchase orders, the ability of Hueck Folien to successfully become a qualified volume OTF supplier, the Company's ability to expand its development revenue and its ability to maintain sufficient liquidity through March 31, 2019 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, 2017 MD&A.

Public Securities Filings
Additional information about Nanotech is available on the Company's website at www.nanosecurity.ca or on SEDAR at www.sedar.com.

Condensed Consolidated Interim Financial Statements of

Nanotech Security Corp.

Three and six months ended March 31, 2018 and 2017
(Unaudited)

Nanotech Security Corp.

Condensed Consolidated Interim Statements of Operations and Comprehensive Loss
(Unaudited)

Three and six months ended March 31, 2018 and 2017
(In Canadian dollars)

	Three months ended March 31,		Six months ended March 31,	
	2018	2017	2018	2017
Revenue (note 9)	$ 1,943,095	$ 1,418,644	$ 4,176,322	$ 2,113,115
Cost of sales (note 10)	497,704	482,844	1,061,555	599,313
	1,445,391	935,800	3,114,767	1,513,802
Expenses (note 10)				
Research and development	392,489	388,803	738,676	763,799
General and administration	690,494	642,835	1,232,113	1,185,536
Sales and marketing	489,767	519,632	946,517	945,136
Depreciation and amortization	408,655	693,189	718,698	1,414,026
	1,981,405	2,244,459	3,636,004	4,308,497
Loss from continuing operations before other expenses	(536,014)	(1,308,659)	(521,237)	(2,794,695)
Other (income) expenses				
Foreign exchange (gain) loss	(176,858)	17,213	(223,859)	(27,181)
Finance (income) expense (note 5)	(26,226)	233,008	(60,268)	464,127
	(203,084)	250,221	(284,127)	436,946
Net loss from continuing operations	(332,930)	(1,558,880)	(237,110)	(3,231,641)
Net income (loss) from discontinued operations (note 11(c))	48,220	(136,010)	48,220	(316,529)
Net loss	(284,710)	(1,694,890)	(188,890)	(3,548,170)
Other comprehensive loss:				
Items that may be subsequently reclassified to earnings:				
Unrealized foreign exchange gain (loss) on translation of foreign operation (note 11(c))	(45,766)	10,867	(70,768)	(14,102)
Total comprehensive loss	$ (330,476)	$ (1,684,023)	$ (259,658)	$ (3,562,272)
Basic and diluted earnings (loss) per share:				
Continuing operations	$ 0.00	$ (0.03)	$ 0.00	$ (0.06)
Discontinued operations	$ 0.00	$ 0.00	$ 0.00	$ (0.01)
Net loss	$ 0.00	$ (0.03)	$ 0.00	$ (0.07)
Weighted average number of common shares				
Basic and diluted	68,395,825	54,122,396	68,395,825	53,995,433

See accompanying Notes to the Condensed Consolidated Interim Financial Statements.

Nanotech Security Corp.

Condensed Consolidated Interim Statements of Financial Position
(Unaudited)

(In Canadian dollars)

	March 31, 2018	September 30, 2017
Assets		
Current assets:		
Cash and cash equivalents	$ 10,286,702	$ 10,883,919
Accounts receivable	1,859,014	1,374,442
Inventory (note 4)	147,062	151,708
Prepaid expenses and other assets	91,902	187,874
Assets held for sale (note 11(a))	176,252	216,225
	12,560,932	12,814,168
Property, plant and equipment	17,670,876	15,856,998
Goodwill	1,388,458	1,388,458
	$ 31,620,266	$ 30,059,624
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 2,727,811	$ 1,431,466
Deferred revenue	352,029	157,171
Liabilities directly associated with assets held for sale (note 11(a))	209,669	200,226
	3,289,509	1,788,863
Non-current liabilities:		
Tenant inducement	57,438	71,223
	3,346,947	1,860,086
Shareholders’ equity		
Share capital (note 6(a))	61,426,483	61,426,483
Contributed surplus	3,048,576	2,715,137
Deficit	(36,062,067)	(35,873,177)
Accumulated other comprehensive loss	(139,673)	(68,905)
	28,273,319	28,199,538
	$ 31,620,266	$ 30,059,624

Related party transactions (note 7)
Commitments (note 12)
See accompanying Notes to the Condensed Consolidated Interim Financial Statements.

Approved on behalf of the Board of Directors:

"Doug Blakeway"	*"Ken Tolmie"*
Doug Blakeway, Director	Ken Tolmie, Director

Nanotech Security Corp.

Condensed Consolidated Interim Statements of Changes in Shareholders' Equity
(Unaudited)

Six months ended March 31, 2018 and 2017
(In Canadian dollars)

	Number of shares		Share capital		Contributed surplus		Deficit		Accumulated other comprehensive loss		Total shareholders' equity
Balance as at October 1, 2016	53,864,285	$	45,210,507	$	2,485,131	$	(31,119,045)	$	(154,510)	$	16,422,083
Net loss	-		-		-		(3,548,170)		-		(3,548,170)
Unrealized foreign exchange loss on translation	-		-		-		-		(14,102)		(14,102)
Share-based compensation (note 6(b) and (c))	-		-		514,247		-		-		514,247
Options exercised	272,000		346,287		(123,287)		-		-		223,000
Balance as at March 31, 2017	54,136,285	$	45,556,794	$	2,876,091	$	(34,667,215)	$	(168,612)	$	13,597,058
Balance as at October 1, 2017	68,395,825	$	61,426,483	$	2,715,137	$	(35,873,177)	$	(68,905)	$	28,199,538
Net loss	-		-		-		(188,890)		-		(188,890)
Unrealized foreign exchange loss on translation	-		-		-		-		(70,768)		(70,768)
Share-based compensation (note 6(b) and (c))	-		-		333,439		-		-		333,439
Balance as at March 31, 2018	68,395,825	$	61,426,483	$	3,048,576	$	(36,062,067)	$	(139,673)	$	28,273,319

See accompanying Notes to the Condensed Consolidated Interim Financial Statements.

Nanotech Security Corp.

Condensed Consolidated Interim Statements of Cash Flows
(Unaudited)

Three and six months ended March 31, 2018 and 2017
(In Canadian dollars)

	Three months ended March 31, 2018	Three months ended March 31, 2017	Six months ended March 31, 2018	Six months ended March 31, 2017
Cash flows provided by (used in):				
Operating activities:				
Net loss from continuing operations	$ (332,930)	$ (1,558,880)	$ (237,110)	$ (3,231,641)
Items not involving cash:				
Depreciation and amortization	423,635	730,723	780,398	1,457,227
Share-based compensation	245,334	310,296	333,439	514,247
Accretion of convertible debentures	-	78,563	-	154,587
Other	(6,892)	(6,892)	(13,785)	(13,785)
Non-cash working capital changes (note 8(a))	(78,656)	(405,449)	(499,120)	(506,802)
	250,491	(851,639)	363,822	(1,626,167)
Net cash provided by (used in) discontinued operations (note 11(b))	2,307	(199,909)	97,636	(413,729)
Cash provided by (used in) operating activities	252,798	(1,051,548)	461,458	(2,039,896)
Investing activities:				
Purchase of property and equipment (note 8(d))	(819,366)	(73,946)	(987,907)	(90,179)
Cash used in investing activities	(819,366)	(73,946)	(987,907)	(90,179)
Financing activities:				
Issuance of shares for options exercised	-	200,000	-	223,000
Cash provided by financing activities	-	200,000	-	223,000
Effect of foreign exchange on cash and cash equivalents	(45,643)	10,867	(70,768)	(14,102)
Decrease in cash and cash equivalents	(612,211)	(914,627)	(597,217)	(1,921,177)
Cash and cash equivalents, beginning of period	10,898,913	2,306,141	10,883,919	3,312,691
Cash and cash equivalents, end of period	$ 10,286,702	$ 1,391,514	$ 10,286,702	$ 1,391,514

See supplementary cash flow information (note 8)
See accompanying Notes to the Condensed Consolidated Interim Financial Statements.

1. Summary of business:

Nanotech Security Corp. (the "Company" or "Nanotech") is incorporated under the laws of British Columbia with common shares listed on the TSX Venture Exchange (trading symbol: NTS) and quoted in the United States on the OTCQX Market (trading symbol: NTSFF). The Company's head office is located at #505 - 3292 Production Way, Burnaby, British Columbia, Canada V5A 4R4.

Nanotech researches, creates, and produces nano-optic structures and colour-shifting materials used in authentication and brand enhancement applications across a wide range of markets including banknotes, tax stamps, secure government documents, commercial branding, and the pharmaceutical industry.

2. Basis of preparation:

(a) *Statement of compliance:*

These condensed consolidated interim financial statements are prepared in accordance with International Accounting Standards ("IAS") 34, *Interim Financial Reporting*, as issued by the International Accounting Standards Board ("IASB") on a basis consistent with those followed in the most recent annual consolidated financial statements.

These condensed consolidated interim financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the Company's audited consolidated financial statements for the year ended September 30, 2017.

Certain comparative figures in the consolidated statements of operations and comprehensive loss have been reclassified to conform to the current period's presentation. This reclassification had no impact on the net loss or total comprehensive loss.

These condensed consolidated interim financial statements were approved and authorized for issue by the Company's Board of Directors on May 9, 2018.

(b) *Basis of measurement:*

These condensed consolidated interim financial statements are presented in Canadian dollars and have been prepared on a historical cost basis, except for certain financial instruments which are measured at fair value.

3. New standards and interpretations not yet adopted:

(a) *IFRS 9 – Financial Instruments:*

In July 2014, the IASB issued IFRS 9 – *Financial Instruments*, which replaces the earlier versions of IFRS 9 (2009, 2010, and 2013) and completes the IASB's project to replace IAS 39 – *Financial Instruments: Recognition and Measurement*. IFRS 9 includes a logical model for classification and measurement of financial assets; a single, forward-looking 'expected credit loss' impairment model and a substantially-reformed approach to hedge accounting to better link the economics of risk management with its accounting treatment. IFRS 9 is effective for annual periods beginning on or after January 1, 2018 and must be applied retrospectively, with some exceptions. Earlier adoption is permitted. The Company is currently evaluating the impact of IFRS 9 on its financial statements and plans to adopt the new standard on the required effective date.

(In Canadian dollars)

3. New standards and interpretations not yet adopted (continued):

(b) *IFRS 15 – Revenue from contracts with customers:*

In May 2014, the IASB issued IFRS 15 – *Revenue from Contracts with Customers*, which supersedes IAS 18 – *Revenue,* IAS 11 – *Construction Contracts* and other interpretive guidance associated with revenue recognition. IFRS 15 provides a single, principles-based five-step model to be applied to all contracts with customers to determine how and when an entity should recognize revenue. The standard also provides guidance on whether revenue should be recognized at a point in time or over time as well as requirements for more informative, relevant disclosures. IFRS 15 is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The Company has completed its assessment of the impact that the initial application of IFRS 15 will have on its consolidated financial statements and does not expect there will be a significant impact, other than additional required disclosures. The Company will adopt IFRS 15 in its consolidated financial statements for the annual period beginning October 1, 2018.

(c) *IFRS 16 – Leases:*

In January 2016, the IASB issued IFRS 16 – *Leases*, which supersedes IAS 17 – *Leases*. IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases. The standard establishes a single model for lessees to bring leases on balance sheet while lessor accounting remains largely unchanged and retains the finance and operating lease distinctions. IFRS 16 is effective for annual periods beginning on or after January 1, 2019 with earlier adoption permitted, but only if also applying IFRS 15 – *Revenue from Contracts with Customers*. The Company is currently evaluating the impact of IFRS 16 on its financial statements and plans to adopt the new standard on the required effective date.

4. Inventory:

	March 31, 2018	September 30, 2017
Raw materials	$ 131,555	$ 123,619
Work in progress	11,645	28,089
Finished goods	3,862	-
	$ 147,062	$ 151,708

There were no inventory write-downs during the three and six months ended March 31, 2018 (March 31, 2017 - $nil).

For the three months ended March 31, 2018, the Company recognized inventories of $497,704 (March 31, 2017 - $482,844) as expensed through cost of sales. For the six months ended March 31, 2018, the Company recognized inventories of $1,061,555 (March 31, 2017 - $599,313) as expensed through cost of sales.

(In Canadian dollars)

5. Convertible debentures:

On June 9, 2016, the Company completed an initial tranche of a non-brokered private placement of unsecured subordinated convertible debentures in the amount of $2,505,000, with a second and final tranche closing on June 21, 2016 in the amount of $1,680,000 for total gross proceeds of $4,185,000, which were payable upon maturity on 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. The Company had the option to pre-pay the principal sum, in whole or in part, twelve months following the closing, after providing twenty business days notice to the holder.

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. On May 18, 2017, the Company recorded accretion expense to bring the carrying value of the debentures to face value of $4,185,000.

Several 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.

Interest expense related to the convertible debentures for the period was as follows:

	Three months ended March 31,		Six months ended March 31,	
	2018	2017	2018	2017
Interest	$ -	$ 123,830	$ -	$ 250,412
Accretion of convertible debentures	-	78,563	-	154,587
Interest expense	$ -	$ 202,393	$ -	$ 404,999

(In Canadian dollars)

6. Share capital:

(a) *Share capital:*

Authorized:

Unlimited number of common shares with no par value
Unlimited number of preferred shares with no par value

Common shares issued and fully paid:

	Number of shares		Amount
Balance as at September 30, 2017 and March 31, 2018	68,395,825	$	61,426,483

There are no preferred shares issued and outstanding.

(b) *Stock option plan:*

Stock options outstanding as at March 31, 2018:

	Number of options		Weighted average exercise price
Balance as at September 30, 2017	2,040,000	$	1.35
Granted	467,500		1.38
Balance as at March 31, 2018	2,507,500	$	1.36

The following table summarizes information pertaining to the Company's stock options outstanding as at March 31, 2018:

	Options outstanding				Options exercisable		
Range of exercise prices	Number of options outstanding	Weighted average remaining contractual life (years)		Weighted average exercise price	Number of options exercisable		Weighted average exercise price
$1.01 - $1.25	1,026,500	2.79	$	1.13	951,500	$	1.13
$1.26 - $1.65	1,481,000	2.73		1.52	1,102,000		1.55
	2,507,500	2.75	$	1.36	2,053,500	$	1.38

The exercise price of all stock options granted are equal to the closing market price at the grant date. The Company calculates the fair value of the options at the grant date using the Black-Scholes option-pricing model with assumptions noted below.

(In Canadian dollars)

6. Share capital (continued):

(b) *Stock option plan (continued):*

The weighted average assumptions used to estimate the fair value of options granted during the three and six month periods ended March 31, 2018 and 2017:

	Three months ended March 31,		Six months ended March 31,	
	2018	2017	2018	2017
Risk free interest rate	1.91%	N/A	1.91%	1.21%
Expected life	4.5	N/A	4.5	4.4
Vesting period	1.5 years	N/A	1.5 years	1.5 years
Expected volatility	43%	N/A	43%	46%
Expected dividends	Nil	N/A	Nil	Nil
Average fair value	$0.53	N/A	$0.53	$0.58
Forfeiture rate	10.3%	N/A	10.3%	11.4%

The Company charged the following share-based payments to expenses in connection with the Company's stock option plan, with a corresponding increase in contributed surplus:

	Three months ended March 31,		Six months ended March 31,	
	2018	2017	2018	2017
Stock option compensation	$ 125,257	$ 139,755	$ 149,357	$ 275,098

(c) *Restricted share unit plan:*

Restricted share units ("RSUs") outstanding as at March 31, 2018:

	Number of RSUs
Balance as at September 30, 2017	529,560
Forfeited	(22,060)
Granted	236,032
Balance as at March 31, 2018	743,532

Using an estimated forfeiture rate of 10% for the three and six months ended March 31, 2018 and 2017, the Company charged the following share-based payments to operating expenses in connection with the Company's RSU plan, with a corresponding increase in contributed surplus:

	Three months ended March 31,		Six months ended March 31,	
	2018	2017	2018	2017
RSU compensation	$ 120,077	$ 170,541	$ 184,082	$ 239,149

(In Canadian dollars)

7. Related party transactions:

(a) Remuneration of key management personnel:

	Three months ended March 31,		Six months ended March 31,	
	2018	2017	2018	2017
Salaries, accrued bonuses, and employee benefits	$ 300,926	$ 247,556	$ 602,341	$ 470,922
Share-based payments	184,667	249,748	258,488	397,535
	$ 485,593	$ 497,304	$ 860,829	$ 868,457

(b) As of March 31, 2018, amounts owing to a company controlled by an officer and director of the Company included in accounts payable and accrued liabilities were $106,003 (September 30, 2017 - $262,854).

(c) Legal and professional fees, taxes and disbursements totaling $34,430 for the three months ended March 31, 2018 (March 31, 2017 - $27,001) and $54,469 for the six months ended March 31, 2018 (March 31, 2017 - $61,554) were incurred with a law firm of which a director of the Company is a partner. As of March 31, 2018, amounts owing to this company included in accounts payable and accrued liabilities were $75,108 (September 30, 2017 - $93,219).

The above transactions are in the normal course of business and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

8. Supplementary cash flow information:

(a) *Change in non-cash working capital:*

	Three months ended March 31,		Six months ended March 31,	
	2018	2017	2018	2017
Accounts receivable	$ (738,625)	$ (893,586)	$ (484,572)	$ (953,658)
Inventory	(16,378)	41,634	3,046	(20,896)
Prepaid expenses and other assets	621,539	(15,369)	95,972	17,786
Accounts payable and accrued liabilities	(140,050)	461,872	(308,424)	449,966
Deferred revenue	194,858	-	194,858	-
	$ (78,656)	$ (405,449)	$ (499,120)	$ (506,802)

(b) *Interest and income taxes:*

	Three months ended March 31,		Six months ended March 31,	
	2018	2017	2018	2017
Interest received	$ 29,793	$ 564	$ 65,636	$ 910
Interest paid	-	153,956	-	310,551

The Company did not pay any income taxes during the three and six months ended March 31, 2018 and March 31, 2017.

(In Canadian dollars)

8. Supplementary cash flow information (continued):

(c) *Cash and cash equivalents:*

Cash and cash equivalents are comprised of:

	March 31, 2018	September 30, 2017
Cash	$ 1,851,578	$ 914,378
Term deposit	8,435,124	9,969,541
	$ 10,286,702	$ 10,883,919

(d) *Supplemental disclosure of non-cash investing activities:*

	Three months ended March 31,		Six months ended March 31,	
	2018	2017	2018	2017
Change in property, plant and equipment in accounts payable	$ 1,534,697	$ -	$ 1,604,770	$ -

9. Revenue:

During the three months ended March 31, 2018, the Company had three customers who represented greater than 10% of total revenues. These customers represented approximately 76%, 13% and 11% of total revenues respectively (March 31, 2017 - one customer represented approximately 89% of total revenues).

During the six months ended March 31, 2018, the Company had two customers who represented greater than 10% of total revenues. These customers represented approximately 82% and 10% of total revenues respectively (March 31, 2017 - one customer represented approximately 90% of total revenues).

10. Nature of expenses:

The expenses presented below represent total cost of sales, sales and marketing, research and development, general and administration expenses, and depreciation and amortization.

	Three months ended March 31,		Six months ended March 31,	
	2018	2017	2018	2017
Salaries and benefits	$ 820,793	$ 889,120	$ 1,615,470	$ 1,547,511
Share-based compensation	245,334	310,296	333,439	514,247
Depreciation and amortization	423,635	730,723	780,398	1,457,227
Travel and entertainment	56,796	60,393	165,955	116,856
Professional fees and insurance	205,218	217,210	442,813	415,251
Public company costs	129,377	133,156	290,588	278,332
Rent and utilities	177,991	153,841	330,195	237,393
Maintenance and office expenses	52,345	121,271	110,375	194,140
Materials consumed	367,620	111,293	628,326	146,853
	$ 2,479,109	$ 2,727,303	$ 4,697,559	$ 4,907,810

(In Canadian dollars)

11. Discontinued operations:

On September 21, 2017, the Directors of the Company made the determination that it would pursue the possible sale of the assets of its subsidiary, Tactical Technologies Inc. ("Tactical"), to a third party. The Company is actively pursuing options including the potential sale or closure of the operation. At September 30, 2017, Tactical was classified as a separate disposal group held for sale and as a discontinued operation.

(a) *Assets and liabilities of Tactical classified as held for sale:*

		March 31, 2018		September 30, 2017
Cash	$	45,729	$	30,280
Accounts receivable		75,316		116,538
Inventory		55,207		54,525
Prepaid expenses		-		12,401
Property, plant and equipment		-		2,481
Assets held for sale	$	176,252	$	216,225
Accounts payable and accrued liabilities	$	209,669	$	200,226
Liabilities directly associated with assets held for sale	$	209,669	$	200,226
Cumulative loss in accumulated other comprehensive loss	$	(139,673)	$	(68,905)

(b) *Net cash flows provided by (used in) discontinued operations:*

	Three months ended March 31,				Six months ended March 31,			
		2018		2017		2018		2017
Net income (loss) from discontinued operations	$	48,220	$	(136,010)	$	48,220	$	(316,529)
Depreciation		-		3,170		-		6,367
Non-cash working capital changes		(45,913)		(67,069)		49,416		(103,567)
	$	2,307	$	(199,909)	$	97,636	$	(413,729)

(In Canadian dollars)

11. Discontinued operations (continued):

(c) *Net income (loss) from discontinued operations, net of income taxes, is as follows:*

	Three months ended March 31,		Six months ended March 31,	
	2018	2017	2018	2017
Revenue	$ 412,804	$ 344,956	$ 614,294	$ 557,498
Cost of sales	185,968	229,944	309,086	389,212
	226,836	115,012	305,208	168,286
Expenses				
Research and development	-	71,777	-	141,862
General and administration	174,820	117,084	247,947	230,960
Sales and marketing	3,131	58,274	6,250	105,673
Depreciation	-	3,170	-	6,367
	177,951	250,305	254,197	484,862
Income (loss) before other expenses	48,885	(135,293)	51,011	(316,576)
Other (income) expenses	665	717	2,791	(47)
Net income (loss) from discontinued operations	$ 48,220	$ (136,010)	$ 48,220	$ (316,529)
Other comprehensive income (loss):				
Unrealized foreign exchange gain (loss) on translation of foreign operation	(45,766)	10,867	(70,768)	(14,102)
Total comprehensive income (loss) from discontinued operations	$ 2,454	$ (125,143)	$ (22,548)	$ (330,631)

12. Commitments:

As at March 31, 2018, the Company is committed under operating leases, primarily related to office space, for the following amounts:

2018	$ 120,039
2019	284,579
2020	202,144
2021	93,289
2022	88,802
2023	63,754
	$ 852,607