NANOTECH

December 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 December 31, 2018.

ADVISORY

This MD&A, dated February 20, 2019, 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 months ended December 31, 2018 as well as with the Company's consolidated financial statements and MD&A for the year ended September 30, 2018. 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 this 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 the loss of a key customer, 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, 2018, 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, and commercial branding.

The Company's nano-optic technology employs arrays of billions of nano-indentations that can be impressed or embossed onto a wide range of substrate materials including polymer, paper, metal, or fabric. By using sophisticated algorithms to direct an electron beam lithography system, the Company creates visual images with effects such as 3D, perceived movement, and the display of high-definition colours.

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. At September 30, 2017, Tactical was classified as a separate disposal group held for sale and as a discontinued operation. On June 29, 2018, the assets used in connection with Tactical's surveillance equipment and van conversion business were sold to an employee of Tactical for a nominal amount, and on September 28, 2018, Tactical was wound up and struck from the corporate register.

RESULTS OF OPERATIONS

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

Select Financial Information	Three months ended December 31 2018	Three months ended December 31 2017[(1)]
Revenue	$ 1,723,877	$ 2,176,352
Cost of sales	509,631	563,851
	1,214,246	1,612,501
Expenses		
Research and development	336,111	346,187
General and administration	537,567	541,619
Sales and marketing	444,714	456,750
Depreciation and amortization	370,759	310,043
Restructuring costs	815,700	-
	2,504,851	1,654,599
Loss from continuing operations before other expenses	(1,290,605)	(42,098)
Other income	(158,695)	(137,918)
Net income (loss) from continuing operations	(1,131,910)	95,820
Net loss from discontinued operations	-	-
Net income (loss)	(1,131,910)	95,820
Adjusted EBITDA[(2)]	$ 117,631	$ 459,645

(1)Results for the three months ended December 31, 2017 have been adjusted to reflect the full retrospective application of IFRS 15, which was adopted October 1, 2018. For further information, see note 3(b) of the condensed consolidated interim financial statements for the three months ended December 31, 2018.

(2)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 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 December 31, 2018 decreased by $452,475 or 21% to $1,723,877, compared to $2,176,352 in the same period last year, primarily due to reduced development contract revenue in the current quarter. While the Company is getting closer to reaching the goal of incorporating a Nanotech security feature on this customer's banknote, advancement towards this goal corresponds with the customer narrowing the scope of development activities with an intention to select a final security feature. Although focusing on one security feature is a positive development, revenues from this customer declined compared to the same period last year.

Gross Margin

Gross margin for the three months ended December 31, 2018 decreased by $398,255 or 25% to $1,214,246, compared to $1,612,501 in the same period last year. The gross margin percentage was 70% for the three months ended December 31, 2018, down from 74% in the same period last year. This decrease was primarily due to the decline in higher margin development contract revenue.

Research and Development

Research and development expenditures for the three months ended December 31, 2018 were $336,111, a decrease of $10,076 or 3%, compared to $346,187 in the same period last year. This decrease was primarily due to lower salaries expense in the current quarter due to efficiencies at our Thurso production facility and reduced patent expenses compared to the same period last year. These decreases were partially offset by the write-down of inventory and a lower proportion of salaries allocated to cost of sales in the current period.

General and Administration

General and administration expenditures for the three months ended December 31, 2018 were $537,567, consistent with $541,619 in the same period last year.

Sales and Marketing

Sales and marketing expenditures for the three months ended December 31, 2018 were $444,714 a decrease of $12,036 or 3%, compared to $456,750 in the same period last year. The decrease is related to reduced investor relations and travel expenditures in the current year, partially offset by increased headcount in the current year.

Depreciation and Amortization

Depreciation and amortization expenditures for the three months ended December 31, 2018 were $370,759, compared to $310,043 in the same period last year. The increase reflects the Company's investment in capital assets in the previous year.

Restructuring Costs

On December 21, 2018, the Board implemented an executive transition plan, under which Mr. Doug Blakeway transitioned his responsibilities as Chief Executive Officer to Mr. Troy Bullock. Under the terms of this transition plan, Mr. Blakeway's executive services consulting agreement was terminated, triggering the following early termination benefits as laid out in the agreement: two years base salary, a pro-rated performance bonus and vesting of all outstanding share-based awards. The Company has accrued restructuring costs of $815,700 as of December 31, 2018, of which $92,200 represents share-based compensation related to the accelerated vesting of Mr. Blakeway's restricted share units.

Other Income

Other income for the three months ended December 31, 2018 was $158,695, an increase of $20,777, compared to other income of $137,918 in the same period last year. The increase was primarily due to an increase in interest income in the current quarter as a result of higher interest rates.

Adjusted EBITDA

Adjusted EBITDA for the three months ended December 31, 2018 was $117,631, compared to $459,645 in the same period last year. The $342,014 decrease in Adjusted EBITDA was primarily due to reduced revenue in the current quarter.

Net Income (Loss)

Net loss for the three months ended December 31, 2018 was $1,131,910, compared to net income of $95,820 during the same period last year. The increase in net loss is primarily due to restructuring costs related to the executive transition in the current quarter in combination with decreased revenue.

QUARTERLY RESULTS

	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017
($ thousands, except per share data)								
Revenue [(1)]	$1,724	$3,028	$1,875	$1,863	$2,176	$2,605	$2,512	$1,362
Net income (loss) from continuing operations	(1,132)	770	(456)	(333)	96	127	(749)	(1,559)
Net income (loss)	(1,132)	770	(627)	(285)	96	(301)	(905)	(1,695)
Adjusted EBITDA[(2)]	118	1,306	100	133	460	1,134	858	(268)
Basic earnings (loss) per share:								
Continuing operations	(0.02)	0.01	(0.01)	0.00	0.00	0.00	(0.01)	(0.03)
Net income (loss)	(0.02)	0.01	(0.01)	0.00	0.00	0.00	(0.02)	(0.03)
Diluted earnings (loss) per share:								
Continuing operations	(0.02)	0.01	(0.01)	0.00	0.00	0.00	(0.01)	(0.03)
Net income (loss)	(0.02)	0.01	(0.01)	0.00	0.00	0.00	(0.02)	(0.03)

[(1)]Results for 2018 and 2017 have been adjusted to reflect the full retrospective application of IFRS 15, which was adopted October 1, 2018. For further information, see note 3(b) of the condensed consolidated interim financial statements for the three months ended December 31, 2018.

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

Revenue and Adjusted EBITDA were impacted by the timing and scope of development contract revenue and the timing of recurring OTF orders in the quarters presented. There is an inherent variability in development contract revenue with government organizations and in the receipt of recurring OTF orders. 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 months ended December 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 December 31	
	2018	2017
Salaries, accrued bonuses, and employee benefits	$ 166,582	$ 301,415
Share-based payments	102,852	73,821
Restructuring costs	815,700	-
	$ 1,085,134	$ 375,236

(b) As at December 31, 2018, amounts owing to a company controlled by an officer and director of the Company included in accounts payable and accrued liabilities were $963,923 (September 30, 2018 - $191,433). These payables represent amounts owing under the terms of an executive services consulting agreement, including payments owing upon the early termination of this agreement. Settlements subsequent to the end of the reporting period include cash payments of $748,223 and share-based compensation of $92,200.

(c) Legal and professional fees, taxes and disbursements totaling $14,506 for the three months ended December 31, 2018 (December 31, 2017 - $20,038) were incurred with a law firm of which a director of the Company is a partner. As of December 31, 2018, amounts owing to this company included in accounts payable and accrued liabilities were $65,981 (September 30, 2018 - $50,780).

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 December 31	
	2018	2017
Cash provided by continuing operations	$ 1,303,308	$ 113,331
Cash provided by (used in) discontinued operations	(52)	95,329
Cash provided by operating activities	1,303,256	208,660
Cash used in investing activities	(32,546)	(168,541)
Effect of foreign exchange on cash and cash equivalents	-	(25,125)
Cash and cash equivalents, beginning of period	2,014,764	10,883,919
Cash and cash equivalents, end of period	$ 3,285,474	$ 10,898,913

Operating Activities

Cash provided by operating activities was $1,303,256 for the three months ended December 31, 2018, compared to cash provided by operating activities of $208,660 for the same period last year. This improvement was as a result of the collection of receivables during the current quarter.

Investing Activities

Cash used in investing activities was $32,546 for the three months ended December 31, 2018, which represents an increase in short-term investments. Cash used in investing activities of $168,541 in the same period last year reflects purchases related to a larger steam boiler for our Thurso facility.

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 review 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 operations, and future significant capital investment opportunities. For the three months ended December 31, 2018, there were no changes in our approach to capital management.

	December 31, 2018	September 30, 2018
Cash	$ 624,524	$ 292,688
Cash equivalents	2,660,950	1,722,076
Short-term investments	7,631,172	7,598,857
	$ 10,916,646	$ 9,613,621

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

The Company had commitments of $694,911 as at December 31, 2018 primarily under operating leases related to office space. Management has reviewed its projected funding requirements for the next twelve months and expects that, through the generation and collection of revenues, the Company will maintain sufficient liquidity to meet its requirements.

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, restructuring costs, and net income (loss) from discontinued operations. The Company believes Adjusted EBITDA is a useful measure as 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, as well as 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 Nanotech's 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 December 31	
	2018	2017
Net income (loss)	$ (1,131,910)	$ 95,820
Finance income	(52,373)	(34,042)
Foreign exchange gain	(47,144)	(47,001)
Depreciation and amortization	385,369	356,763
Share-based compensation	147,989	88,105
Restructuring Costs	815,700	-
Adjusted EBITDA	$ 117,631	$ 459,645

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 consolidated financial statements for the year ended September 30, 2018. In the three months ended December 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.

	December 31, 2018		September 30, 2018	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Common shares outstanding	68,771,501		68,771,501	
Options				
Outstanding	3,635,000	$ 1.14	2,607,500	$ 1.35
Exercisable	2,555,625	$ 1.28	2,273,750	$ 1.35
RSUs				
Outstanding	648,501	N/A	370,606	N/A

As at February 20, 2019, the Company has 68,959,001 common shares issued and outstanding. There are no preferred shares issued and outstanding.

SIGNIFICANT ACCOUNTING POLICIES

(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 and a single, forward-looking 'expected credit loss' impairment model.

The Company adopted IFRS 9 on October 1, 2018. The adoption of IFRS 9 did not have an impact on the Company's condensed consolidated interim financial statements and related disclosures. With respect to classification and measurement, the Company has applied the exemption not to restate comparative information for prior periods. The determination of the business model within which a financial asset is held has been made on the basis of facts and circumstances that existed at the date of initial application.

The following accounting policies apply to the classification of financial assets:

- Amortized cost – the asset is held within a business model whose object is to collect contractual cash flows, and the contractual terms give rise to cash flows that are solely payments of principal and interest.
- Fair Value Through Other Comprehensive Income – the cash flows arising from the asset are solely payments of principal and interest, and the asset is held in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.
- Fair Value Through Profit and Loss – all financial assets not classified as measured at amortized cost or Fair Value Through Other Comprehensive Income are measured at Fair Value Through Profit and Loss. On initial recognition, the Company may irrevocably designate a financial asset as Fair Value Through Profit and Loss if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise under amortized cost or Fair Value Through Other Comprehensive Income.

A financial asset (unless it is a trade receivable without a significant financing component that is initially measured at the transaction price) is initially measured at fair value plus transaction costs that are directly attributable to its acquisition (except items at Fair Value Through Profit and Loss, which do not include transaction costs).

The following accounting policies apply to the subsequent measurement of financial assets:

- Amortized cost – the asset is subsequently measured at amortized cost using the effective interest method. Interest income, foreign exchange gains or losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.
- Fair Value Through Other Comprehensive Income – the asset is subsequently measured at fair value. Interest income calculated using the effective interest rate method, foreign exchange gains or losses and impairment are recognized in profit or loss. Other net gains and losses are recognized in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss.
- Fair Value Through Profit and Loss – the asset is subsequently measured at fair value. Net gains and losses, including any interest income, are recognized in profit or loss.

The following table explains the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of financial assets as at October 1, 2018.

Financial assets	**IAS 39**	**IFRS 9**
Cash and cash equivalents	Loans & receivables	Amortized cost
Short-term investments	Loans & receivables	Amortized cost
Trade and other receivables	Loans & receivables	Amortized cost

There was no change in classification of financial liabilities as a result of IFRS 9. There are no differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9.

(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.

The Company adopted IFRS 15 on October 1, 2018 and its adoption did not have a material impact on the Company's condensed consolidated interim financial statements and related disclosures, except for the reclassification of tenant income, as described below. The Company has applied IFRS 15 in accordance with the full retrospective transitional approach without applying any practical expedients.

IFRS 15 requires entities to recognize revenue when 'control' of goods or services transfers to the customer whereas the previous standard, IAS 18, required entities to recognize revenue when the 'risks and rewards' of the goods or services transfer to the customer. The Company concluded there is no change in the timing of revenue recognition under IFRS 15 compared to the previous standard as the point of transfer of risks and rewards of goods and services and transfer of control occur at the same time. However, the Company identified that tenant income does not arise from the entity's ordinary activities, and therefore does not meet the definition of revenue under IFRS 15. As a result, tenant income has been reclassified to other income retrospectively.

For the three months ended December 31, 2017, revenue was previously reported as $2,233,227 and restated as $2,176,352, due to a reclass of $56,875 to tenant income. There was no impact on net income or earnings per share.

For the year ended September 30, 2018, revenue was previously reported as $9,199,710 and restated as $8,942,162, due to a reclass of $257,548 to tenant income. Cost of sales was previously reported as $2,051,890 and restated as $2,032,165, due to a reclass of $19,725 to tenant income. There was no impact on net income or earnings per share.

Revenue from development contracts and other services (including steam) is recognized over time as those services are provided. Invoices for development contracts and other services are issued on a monthly basis and are usually payable within 30 days. Revenue from the sale of products is recognized when customers obtain control, which occurs when products are shipped. Invoices are generated at that point in time and are usually payable within 30 days. The Company does not offer any discounts or returns.

(c) *Other*

The Company has adopted narrow scope amendments/interpretations to IFRIC 22 – *Foreign Currency Transactions and Advance Consideration* and IFRS 2 – *Share Based Payments*, which did not have an impact on the Company's condensed consolidated interim financial statements.

ADDITIONAL INFORMATION

Outlook

Nanotech's strategy to disrupt the multibillion-dollar banknote market and become a key supplier of banknote security features is on track, and the Company is gaining recognition in the industry as having innovative technologies to address the needs of central banks around the world. In commercial markets, the Company continues to make advancements in positioning its KolourOptik technology as an upgrade and replacement to traditional holograms. In 2019, the Company expects to introduce new and innovative products into the banknote and commercial markets as well as make a significant investment into building its sales organization.

The Company continues to work towards the goals management established for the 2019 fiscal year:

- **Create a direct salesforce.** Nanotech will create a salesforce to accelerate the sales process by focusing on direct sales in addition to working with key partners. The Company will also put in place a more scalable sales process that will focus on diversifying its customer base and demonstrating its differentiation through commercial sales. The Company plans to develop a more traditional sales pipeline, creating the necessary process and channel development strategies to target both small and large customers with defined products. The recent hiring of Mr. Brian Donnelly as Vice President Sales is a key step in establishing an effective salesforce for the Company.
- **Banknote market.** The Company has two areas of focus in the banknote market:
  - **Contract development activities.** Nanotech currently generates most of its revenue from development contracts with a single customer, with the goal of incorporating a Nanotech security feature on their banknote. This work is progressing well. The customer has narrowed the scope of development activities, which should see the Company move to manufacturing production level volume samples in fiscal 2020.
  - **Expand and enhance our banknote product line.** The Company plans to brand its currently unbranded products, such as OTF, and extend the product line with a new version of M^2. This will enable central banking customers to have a menu of options for their needs and cost parameters.
- **Commercial markets.** The Company plans to launch a new line of product offerings featuring KolourOptik technology targeted directly at the commercial market. As well, the Company will secure a reliable and timely manufacturing solution for commercial size quantities of KolourOptik labels. By implementing these strategies, Nanotech will be able to sell directly to commercial customers and deliver a complete security label to showcase customers' brand identity.
- **Financial outlook.** Management continues to believe the Company's technology has significant potential in many markets. Successfully incorporating a security feature into a banknote will lead to longer-term recurring, predictable revenue. Diversification into commercial markets is also expected to stabilize revenues and earnings. In the short-term, while management builds out the sales strategy and product offering, the Company's financial performance may be highly variable. Management's 2019 forecast remains unchanged:
  - **Based on current visibility and conservatively assuming no additional contracts that could be won during the year, revenue may decrease by 10% to 20% compared to 2018.** Nanotech

will continue to generate most of its 2019 revenue from development contracts with a single customer. While the Company is getting closer to reaching the goal of incorporating a Nanotech security feature on this customer's banknote, advancement towards this goal corresponds with the customer narrowing the scope of development activities with an intention to select a final security feature. This selection will see the Company move to manufacturing production volume samples in fiscal 2020. While focusing on one security feature is a positive development, because the scope of work has been reduced, overall 2019 revenues may be negatively impacted, as seen in the first quarter. Nanotech continues to operate under an agreement to provide up to $30 million in research and development services. Only $12 million of this revenue has been recognized as of December 31, 2018.

- **Adjusted EBITDA loss of approximately $1.0 million.** Potential declining revenue and increased investment in the Company's sales efforts and product offerings could reduce near-term profitability.

With a strong balance sheet, including $10,916,646 in cash and short-term investments and no debt, the Company is well positioned to develop and pursue its sales strategies in 2019.

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 months ended December 31, 2018 and 2017
(Unaudited)

Nanotech Security Corp.

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

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

		2018		2017
				Restated note 3(b)
Revenue (notes 3(b) and 11)	$	1,723,877	$	2,176,352
Cost of sales (note 12)		509,631		563,851
		1,214,246		1,612,501
Expenses (note 12)				
Research and development		336,111		346,187
General and administration		537,567		541,619
Sales and marketing		444,714		456,750
Depreciation and amortization		370,759		310,043
Restructuring costs (note 13)		815,700		-
		2,504,851		1,654,599
Loss from continuing operations before other expenses		(1,290,605)		(42,098)
Other income				
Foreign exchange gain		(47,144)		(47,001)
Finance income (note 7)		(52,373)		(34,042)
Tenant income (note 3(b))		(59,178)		(56,875)
		(158,695)		(137,918)
Net income (loss) from continuing operations		(1,131,910)		95,820
Net loss from discontinued operations (note 14(c))		-		-
Net income (loss)		(1,131,910)		95,820
Other comprehensive loss:				
Items that may be subsequently reclassified to earnings:				
Unrealized foreign exchange loss on translation of foreign operation (note 14(c))		-		(25,125)
Total comprehensive income (loss)	$	(1,131,910)	$	70,695
Basic and diluted earnings (loss) per share:				
Continuing operations	$	(0.02)	$	0.00
Discontinued operations		0.00		0.00
Net income (loss)	$	(0.02)	$	0.00
Weighted average number of common shares				
Basic		68,771,501		68,395,825
Diluted		68,771,501		68,658,858

See accompanying notes to the condensed consolidated interim financial statements.

Nanotech Security Corp.

Condensed Consolidated Interim Statements of Financial Position
(Unaudited)

(In Canadian dollars)

	December 31, 2018	September 30, 2018
Assets		
Current assets:		
Cash and cash equivalents (note 10(c))	$ 3,285,474	$ 2,014,764
Short-term investments (note 5)	7,631,172	7,598,857
Accounts receivable	843,691	1,962,969
Inventory (note 6)	171,337	173,636
Prepaid expenses and other assets	93,492	125,514
	12,025,166	11,875,740
Property, plant and equipment	16,613,703	16,964,857
Goodwill	1,388,458	1,388,458
	$ 30,027,327	$ 30,229,055
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities (note 13)	$ 2,054,420	$ 1,265,282
Liabilities directly associated with assets held for sale (note 14(a))	16,152	16,204
	2,070,572	1,281,486
Non-current liabilities:		
Tenant inducement	36,760	43,653
	2,107,332	1,325,139
Shareholders' equity		
Share capital (note 8(a))	61,892,395	61,892,395
Contributed surplus	3,078,953	2,930,964
Deficit	(37,051,353)	(35,919,443)
	27,919,995	28,903,916
	$ 30,027,327	$ 30,229,055

Related party transactions (note 9)
Commitments (note 15)
See accompanying notes to the condensed consolidated interim financial statements.

Approved on behalf of the Board of Directors:

"Doug Blakeway"
Doug Blakeway, Director

"Ken Tolmie"
Ken Tolmie, Director

Nanotech Security Corp.

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

Three months ended December 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, 2017	68,395,825	$	61,426,483	$	2,715,137	$	(35,873,177)	$	(68,905)	$	28,199,538
Net income	-		-		-		95,820		-		95,820
Unrealized foreign exchange gain on translation	-		-		-		-		(25,125)		(25,125)
Share-based compensation - options (note 8(b)(i))	-		-		24,099		-		-		24,099
Share-based compensation - RSUs (note 8(b)(ii))	-		-		64,006		-		-		64,006
Balance as at December 31, 2017	68,395,825	$	61,426,483	$	2,803,242	$	(35,777,357)	$	(94,030)	$	28,358,338
Balance as at October 1, 2018	68,771,501	$	61,892,395	$	2,930,964	$	(35,919,443)	$	-	$	28,903,916
Net loss	-		-		-		(1,131,910)		-		(1,131,910)
Share-based compensation - options (note 8(b)(i))	-		-		95,884		-		-		95,884
Share-based compensation - RSUs (note 8(b)(ii))	-		-		52,105		-		-		52,105
Balance as at December 31, 2018	68,771,501	$	61,892,395	$	3,078,953	$	(37,051,353)	$	-	$	27,919,995

See accompanying notes to the condensed consolidated interim financial statements.

Nanotech Security Corp.

Condensed Consolidated Interim Statements of Cash Flows
(Unaudited)

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

	2018	2017
Cash flows provided by (used in):		
Operating activities:		
Net income (loss) from continuing operations	$ (1,131,910)	$ 95,820
Items not involving cash:		
Depreciation and amortization (note 12)	385,369	356,763
Share-based compensation (note 12)	147,989	88,105
Interest income (note 7)	(54,446)	(36,150)
Other	(3,641)	(6,680)
Non-cash working capital changes (note10(a))	1,916,132	(420,464)
Interest received	43,815	35,937
	1,303,308	113,331
Net cash provided by (used in) discontinued operations (note 14(b))	(52)	95,329
Cash provided by operating activities	1,303,256	208,660
Investing activities:		
Purchase of property and equipment (note 10(d))	(7,610)	(168,541)
Net acquisition of short-term investments	(24,936)	-
Cash used in investing activities	(32,546)	(168,541)
Effect of foreign exchange on cash and cash equivalents	-	(25,125)
Increase in cash and cash equivalents	1,270,710	14,994
Cash and cash equivalents, beginning of period	2,014,764	10,883,919
Cash and cash equivalents, end of period	$ 3,285,474	$ 10,898,913

See supplementary cash flow information (note 10)
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, and commercial branding.

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, with the exception of new accounting policies that were adopted on October 1, 2018 as described in note 3.

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, 2018.

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 February 20, 2019.

(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. Change in accounting policy

(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 and a single, forward-looking ‘expected credit loss’ impairment model.

The Company adopted IFRS 9 on October 1, 2018. The adoption of IFRS 9 did not have an impact on the Company’s condensed consolidated interim financial statements and related disclosures. With respect to classification and measurement, the Company has applied the exemption not to restate comparative information for prior periods. The determination of the business model within which a financial asset is held has been made on the basis of facts and circumstances that existed at the date of initial application.

The following accounting policies apply to the classification of financial assets:

- Amortized cost – the asset is held within a business model whose object is to collect contractual cash flows, and the contractual terms give rise to cash flows that are solely payments of principal and interest.

3. Change in accounting policy (continued)

(a) *IFRS 9 – Financial Instruments (continued)*

- Fair Value Through Other Comprehensive Income – the cash flows arising from the asset are solely payments of principal and interest, and the asset is held in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.
- Fair Value Through Profit and Loss – all financial assets not classified as measured at amortized cost or Fair Value Through Other Comprehensive Income are measured at Fair Value Through Profit and Loss. On initial recognition, the Company may irrevocably designate a financial asset as Fair Value Through Profit and Loss if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise under amortized cost or Fair Value Through Other Comprehensive Income.

A financial asset (unless it is a trade receivable without a significant financing component that is initially measured at the transaction price) is initially measured at fair value plus transaction costs that are directly attributable to its acquisition (except items at Fair Value Through Profit and Loss, which do not include transaction costs).

The following accounting policies apply to the subsequent measurement of financial assets:

- Amortized cost – the asset is subsequently measured at amortized cost using the effective interest method. Interest income, foreign exchange gains or losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.
- Fair Value Through Other Comprehensive Income – the asset is subsequently measured at fair value. Interest income calculated using the effective interest rate method, foreign exchange gains or losses and impairment are recognized in profit or loss. Other net gains and losses are recognized in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss.
- Fair Value Through Profit and Loss – the asset is subsequently measured at fair value. Net gains and losses, including any interest income, are recognized in profit or loss.

The following table explains the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of financial assets as at October 1, 2018.

Financial assets	**IAS 39**	**IFRS 9**
Cash and cash equivalents	Loans & receivables	Amortized cost
Short-term investments	Loans & receivables	Amortized cost
Trade and other receivables	Loans & receivables	Amortized cost

There was no change in classification of financial liabilities as a result of IFRS 9. There are no differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9.

(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.

3. Change in accounting policy (continued)

(b) *IFRS 15 – Revenue from Contracts with Customers (continued)*

The Company adopted IFRS 15 on October 1, 2018 and its adoption did not have a material impact on the Company's condensed consolidated interim financial statements and related disclosures, except for the reclassification of tenant income, as described below. The Company has applied IFRS 15 in accordance with the full retrospective transitional approach without applying any practical expedients.

IFRS 15 requires entities to recognize revenue when 'control' of goods or services transfers to the customer whereas the previous standard, IAS 18, required entities to recognize revenue when the 'risks and rewards' of the goods or services transfer to the customer. The Company concluded there is no change in the timing of revenue recognition under IFRS 15 compared to the previous standard as the point of transfer of risks and rewards of goods and services and transfer of control occur at the same time. However, the Company identified that tenant income does not arise from the entity's ordinary activities, and therefore does not meet the definition of revenue under IFRS 15. As a result, tenant income has been reclassified to other income retrospectively.

For the three months ended December 31, 2017, revenue was previously reported as $2,233,227 and restated as $2,176,352, due to a reclass of $56,875 to tenant income. There was no impact on net income or earnings per share.

For the year ended September 30, 2018, revenue was previously reported as $9,199,710 and restated as $8,942,162, due to a reclass of $257,548 to tenant income. Cost of sales was previously reported as $2,051,890 and restated as $2,032,165, due to a reclass of $19,725 to tenant income. There was no impact on net income or earnings per share.

Revenue from development contracts and other services (including steam) is recognized over time as those services are provided. Invoices for development contracts and other services are issued on a monthly basis and are usually payable within 30 days. Revenue from the sale of products is recognized when customers obtain control, which occurs when products are shipped. Invoices are generated at that point in time and are usually payable within 30 days. The Company does not offer any discounts or returns.

(c) *Other*

The Company has adopted narrow scope amendments/interpretations to IFRIC 22 – *Foreign Currency Transactions and Advance Consideration* and IFRS 2 – *Share Based Payments*, which did not have an impact on the Company's condensed consolidated interim financial statements.

4. New standards and interpretations not yet adopted

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.

(In Canadian dollars)

5. Short-term investments

Short-term investments of $7,631,172 (September 30, 2018 - $7,598,857) consist of cashable term deposits held with a Canadian chartered bank. The term deposits have maturity dates between March 25, 2019 and June 25, 2019. Interest rates range between 2.05% and 2.31%.

6. Inventory

	December 31, 2018	September 30, 2018
Raw materials	$ 114,464	$ 160,550
Work in progress	30,224	13,086
Finished goods	26,649	-
	$ 171,337	$ 173,636

There were inventory write-downs of $47,513 during the three months ended December 31, 2018 (December 31, 2017 - $nil). For the three months ended December 31, 2018, the Company recognized inventories of $173,704 (December 31, 2017 - $214,566) as expensed through cost of sales.

7. Finance income

	Three months ended December 31	
	2018	2017
Interest income from cash and cash equivalents and short-term investments	$ (54,446)	$ (36,150)
Other interest expenses	2,073	2,108
	$ (52,373)	$ (34,042)

8. 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, 2018 and December 31, 2018	68,771,501	$ 61,892,395

There are no preferred shares issued and outstanding.

(In Canadian dollars)

8. Share capital (continued)

(b) *Share-based payment plans*

(i) Stock option plan

Under the Company's share incentive plan, the maximum number of shares that may be reserved for grant of options at any point in time is 10.0% of the outstanding shares less any shares reserved for issuance under the restricted share unit ("RSU") plan. The following stock options were outstanding as at December 31, 2018:

	Number of options	Weighted average exercise price
Balance as at September 30, 2018	2,607,500	$ 1.35
Granted	1,027,500	0.60
Balance as at December 31, 2018	3,635,000	$ 1.14

The following table summarizes information pertaining to the Company's stock options outstanding as at December 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
$0.00 - $1.00	1,027,500	4.98	$ 0.60	256,875	$ 0.60
$1.01 - $1.25	1,126,500	2.23	1.14	1,026,500	1.13
$1.26 - $1.65	1,481,000	1.98	1.52	1,272,250	1.53
	3,635,000	2.90	$ 1.14	2,555,625	$ 1.28

The Company calculates the fair value of the options at the grant date using the Black-Scholes option-pricing model. The table below outlines the weighted average assumptions used to estimate the fair value of options granted during the three month periods ended December 31, 2018 and 2017:

	Three months ended December 31	
	2018	2017
Risk free interest rate	2.3%	N/A
Expected life	5.0 years	N/A
Expected volatility	44.4%	N/A
Expected dividends	Nil	N/A
Average fair value	$ 0.22	N/A
Forfeiture rate	8.0%	N/A

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 December 31	
	2018	2017
Total compensation - stock options	$ 95,884	$ 24,099

(In Canadian dollars)

8. Share capital (continued)

(b) *Share-based payment plans (continued)*

(ii) Restricted share unit plan

RSUs outstanding as at December 31, 2018:

	Number of RSUs
Balance as at September 30, 2018	370,606
Forfeited	(2,745)
Granted	280,640
Balance as at December 31, 2018	648,501

Using an estimated forfeiture rate of 8.0% for the three months ended December 31, 2018 and 10.0% for the three months ended December 31, 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 December 31	
	2018	2017
Total compensation - RSUs	$ 52,105	$ 64,006

9. Related party transactions

(a) *Remuneration of key management personnel*

	Three months ended December 31	
	2018	2017
Salaries, accrued bonuses, and employee benefits	$ 166,582	$ 301,415
Share-based payments	102,852	73,821
Restructuring costs (note 13)	815,700	-
	$ 1,085,134	$ 375,236

(b) As at December 31, 2018, amounts owing to a company controlled by an officer and director of the Company included in accounts payable and accrued liabilities were $963,923 (September 30, 2018 - $191,433). These payables represent amounts owing under the terms of an executive services consulting agreement, including payments owing upon the early termination of this agreement (note 13). Settlements subsequent to the end of the reporting period include cash payments of $748,223 and share-based compensation of $92,200.

(c) Legal and professional fees, taxes and disbursements totaling $14,506 for the three months ended December 31, 2018 (December 31, 2017 - $20,038) were incurred with a law firm of which a director of the Company is a partner. As of December 31, 2018, amounts owing to this company included in accounts payable and accrued liabilities were $65,981 (September 30, 2018 - $50,780).

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.

(In Canadian dollars)

10. Supplementary cash flow information

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

	Three months ended December 31	
	2018	2017
Accounts receivable	$ 1,119,278	$ 254,053
Inventory	8,249	19,424
Prepaid expenses and other assets	32,022	(525,567)
Accounts payable and accrued liabilities (note 10(d))	756,583	(168,374)
	$ 1,916,132	$ (420,464)

(b) *Income taxes*

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

(c) *Cash and cash equivalents*

Cash and cash equivalents consist of cash balances with banks, investments with original maturities of three months or less, and investments that are both readily convertible to cash and subject to insignificant changes in market value:

	December 31, 2018	September 30, 2018
Cash	$ 624,524	$ 292,688
Cash equivalents	2,660,950	1,722,076
	$ 3,285,474	$ 2,014,764

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

As at December 31, 2018, property, plant and equipment included in accounts payable was $32,555 (December 31, 2017 - $70,073).

11. Revenue and segmented information

The Company's continuing operations currently consist of one operating segment. Within this operating segment, revenue is disaggregated by type as follows:

	Three months ended December 31	
	2018	2017 Restated note 3(b)
Development contracts	$ 1,478,210	$ 1,949,627
Products and services	53,462	41,941
Steam	192,205	184,784
	$ 1,723,877	$ 2,176,352

For the three months ended December 31, 2018, sales within Canada were $192,205 (December 31, 2017 - $221,055) and sales outside Canada were $1,531,672 (December 31, 2017 - $1,955,297).

(In Canadian dollars)

12. Nature of expenses

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

	Three months ended December 31	
	2018	2017
Salaries and benefits	$ 734,011	$ 794,677
Share-based compensation	147,989	88,105
Depreciation and amortization	385,369	356,763
Travel and entertainment	73,602	109,159
Professional fees and insurance	182,818	237,595
Public company costs	111,870	161,211
Rent and utilities	172,913	152,204
Maintenance and office expenses	81,562	58,030
Materials consumed	308,648	260,706
Restructuring costs (note 13)	815,700	-
	$ 3,014,482	$ 2,218,450

13. Restructuring costs

On December 21, 2018, the Board implemented an executive transition plan, under which Mr. Doug Blakeway transitioned his responsibilities as Chief Executive Officer to Mr. Troy Bullock. Under the terms of this transition plan, Mr. Blakeway's executive services consulting agreement was terminated, triggering the following early termination benefits as laid out in the agreement: two years base salary, a pro-rated performance bonus and vesting of all outstanding share-based awards. The Company has accrued restructuring costs of $815,700 as of December 31, 2018 (December 31, 2017 - $nil), of which $92,200 represents share-based compensation related to the accelerated vesting of Mr. Blakeway's RSUs.

14. 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. At September 30, 2017, Tactical was classified as a separate disposal group held for sale and as a discontinued operation.

On June 29, 2018, the assets used in connection with Tactical's surveillance equipment and van conversion business were sold to an employee of Tactical for a nominal amount and on September 28, 2018, Tactical was wound-up and struck from the corporate register.

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

	December 31, 2018	September 30, 2018
Accounts payable and accrued liabilities	$ 16,152	$ 16,204
Liabilities directly associated with assets held for sale	$ 16,152	$ 16,204

(In Canadian dollars)

14. Discontinued operations (continued)

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

	Three months ended December 31			
		2018		2017
Non-cash working capital changes	$	(52)	$	95,329
	$	(52)	$	95,329

(c) *Net loss from discontinued operations, net of income taxes*

	Three months ended December 31			
		2018		2017
Revenue	$	-	$	201,490
Cost of sales		-		123,118
		-		78,372
Expenses				
General and administration		-		73,127
Sales and marketing		-		3,119
		-		76,246
Income before other expenses		-		2,126
Other expenses				
Finance expense		-		2,126
Net loss from discontinued operations	$	-	$	-
Other comprehensive loss:				
Unrealized foreign exchange loss on translation of foreign operation		-		(25,125)
Total comprehensive loss from discontinued operations	$	-	$	(25,125)

15. Commitments

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

2019	$	225,736
2020		217,966
2021		96,196
2022		90,277
2023		64,736
	$	694,911