

Nanotech Announces First Quarter Fiscal 2019 Results

Corporate Transition Underway

VANCOUVER, British Columbia – February 21, 2019 – Nanotech Security Corp. (TSXV: NTS) (OTCQX: NTSFF) ("Nanotech" or the "Company"), a leading innovator in the research, creation and production of nano-optic structures and colour-shifting materials used in authentication and brand enhancement, today released its financial results for the three months ended December 31, 2018. Management will host a conference call today, February 21, 2019 at 5:00 pm Eastern.

These financial results reflect the October 1, 2018 adoption of IFRS 15 – *Revenue from Contracts with Customers* ("IFRS 15"). Results for the comparative periods have been adjusted to reflect the retrospective application of IFRS 15. See note 3(b) in the first quarter interim consolidated financial statements for a full description of the associated impacts. Unless otherwise stated, all dollar amounts are expressed in Canadian dollars.

Highlights

- **Revenues of \$1.7 million were down 21% compared to the same period last year.** KoloOptik® and optical thin film ("OTF") development contracts for customized banknote security features continue to provide significant revenues to the Company but were impacted by the timing and scope of the contracts in the current quarter.
- **Gross margin was 70%, down from 74% in the same period last year.** Overall margin was negatively impacted by a lower proportion of development contract revenue in the revenue mix.
- **Adjusted EBITDA was \$117,631 for the quarter.** Adjusted EBITDA decreased \$342,014 from the same period last year primarily due to reduced revenue in the current quarter.
- **Cash and short-term investments were \$10.9 million at quarter end.** The Company finished the quarter with a strong cash position and no debt.

Recent Developments

- **Executive succession plan complete.** Subsequent to the end of the first quarter, Troy Bullock, former President and CFO, assumed the role of President and CEO, and Monika Russell, former VP Finance, assumed the role of acting CFO. Former CEO and Chairman, Doug Blakeway continues to serve as Chairman of the Board.
- **Brian Donnelly hired as Vice President Sales.** Mr. Donnelly has extensive experience in international sales and is adept at building and leading high-performance sales teams. He will focus on building Nanotech's sales team and developing a more scalable sales pipeline and process, laying the foundation for future revenue growth.
- **New Board of Directors for 2019.** Nanotech has nominated three new directors to its Board, bringing additional strategic leadership, commercialization and marketing expertise to the Board to guide Nanotech through its next phase of growth.

"Fiscal 2019 is a transitional year for Nanotech, including not just the executive and Board transitions but also a shift in focus toward commercializing our technology in both the banknote and commercial markets," said Mr. Bullock. "With the recent addition of Mr. Donnelly, we are well-positioned to implement our product-based sales and marketing strategies."

2019 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 hiring of Mr. 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 M². 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.

Select Financial Information

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

	Three months ended		% Change
	December 31		
	2018	2017 ⁽¹⁾	
Revenue	\$ 1,723,877	\$ 2,176,352	(21%)
Gross margin	1,214,246	1,612,501	(25%)
Gross margin %	70%	74%	
Adjusted EBITDA ⁽²⁾	117,631	459,645	(74%)
Net income (loss)	(1,131,910)	95,820	(1,281%)
Earnings (loss) per share			
Basic and diluted	(0.02)	0.00	
Weighted average number of common shares			
Basic	68,771,501	68,395,825	
Diluted	68,771,501	68,658,858	

⁽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 News Release.

Financial Position as at:	December 31, 2018	September 30, 2018	% Change
Cash, cash equivalents and short-term investments	\$ 10,916,646	\$ 9,613,621	14%
Total assets	\$ 30,027,327	\$ 30,229,055	(1%)
Total liabilities	2,107,332	1,325,139	59%
Total equity	27,919,995	28,903,916	(3%)

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. Overall, 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.

Operating Costs

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 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 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 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 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.

On December 21, 2018, the Board implemented an executive transition plan, under which Mr. Blakeway transitioned his responsibilities as Chief Executive Officer to Mr. Bullock effective January 2, 2019. 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 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.

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 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

Equity Grants

The Board of Directors are approving for grant an aggregate of 100,000 stock options to insiders. These options will be granted subsequent to the end of the Company's trading blackout at market price, in accordance with TSXV Policy 1.1. The options will be for three years and will bring the total options outstanding to 5.7% of outstanding shares.

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 ⁽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		
Foreign exchange gain	(47,144)	(47,001)
Finance income	(52,373)	(34,042)
Tenant income	(59,178)	(56,875)
	(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
Other comprehensive loss:		
Items that may be subsequently reclassified to earnings:		
Unrealized foreign exchange loss on translation of foreign operation	-	(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

⁽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.

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

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	385,369	356,763
Share-based compensation	147,989	88,105
Interest income	(54,446)	(36,150)
Other	(3,641)	(6,680)
Non-cash working capital changes	1,916,132	(420,464)
Interest received	43,815	35,937
	1,303,308	113,331
Net cash provided by (used in) discontinued operations:	(52)	95,329
Cash provided by operating activities	1,303,256	208,660
Investing activities:		
Purchase of property and equipment	(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

Conference Call Details:

DATE:	Thursday, February 21, 2019	Time: 5:00 PM Eastern
DIAL IN NUMBER:	Toll free (Canada and US): 1-866-548-4713 Conference ID: 265362	Alternate number: 1-323-794-2093
TAPED REPLAY:	Toll free (Canada and US): 1-844-512-2921 Replay available until March 21, 2019 Replay pin number: 265362	Alternate number: 1-412-317-6671 Replay pin number: 265362
WEBCAST:	http://public.viavid.com/index.php?id=133234	

FORWARD-LOOKING STATEMENTS

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

These forward-looking statements include, without limitation, statements about the Company's market opportunities, strategies, competition, and the Company's views that its optics-based technologies will continue to show promise for large-scale production. Other forward-looking statements imply that the Company will remain capable of being financed and/or will be able to partner in 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 the discussion and analysis of the financial conditions and results of operations or the documents incorporated by reference, are qualified by this cautionary statement and there can be no certainty that actual results or developments the Company anticipates will be realized. For additional information with respect to certain of these risks or factors reference should be made to the "Business Risks and Uncertainties" section of the management's discussion and analysis and 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.

About Nanotech

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.

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

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