

## ***Nanotech Announces Third Quarter Fiscal 2019 Results***

**VANCOUVER, British Columbia – August 8, 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 and nine months ended June 30, 2019. Management will host a conference call today, August 8, 2019 at 5:00 pm Eastern (details below). Unless otherwise stated, all dollar amounts are expressed in Canadian dollars.

### **Financial Highlights**

- Revenue was \$1.9 million and \$5.5 million for the three and nine months ended June 30, 2019, representing an increase of 1% and decrease of 6% compared to the same periods last year.
- Gross margin for the quarter was 72% versus 69% last quarter and 83% in the third quarter of 2018.
- Adjusted EBITDA was \$17,000 for the quarter, which represents the ninth consecutive quarter of positive Adjusted EBITDA, and \$180,000 for the year to date.
- Cash and short-term investments were \$9.6 million at quarter end.

"We are seeing the results of our product-based sales strategies that we implemented at the beginning of the year," said President and CEO Troy Bullock. "Our brand protection products are gaining traction, with corresponding growth in our sales pipeline, and we've also been able to expand our optical thin film sales. These developments, coupled with the advancement of our contract services, give us confidence that our growth strategy is sound. In the short term, we will continue to focus on revenue opportunities with short sales cycles and expanding our sales pipeline, all while continuing to advance opportunities for KolourOptik® on banknotes."

### **Strategic Update**

In January 2019, management implemented a strategic shift to focus on near term revenue growth by commercializing its technology into products specifically designed for the banknote and secure document market and the brand protection market. The Company launched its first brand protection products, LiveLogo™ and Dynamic Portrait™ in April and has hired experienced sales leaders to pursue near-term revenue opportunities.

**Banknote security feature market.** The Company has two areas of focus in the banknote market:

- **Contract services progress towards a new security feature for a G10 central bank.** The customer, a confidential central bank, confirmed in July that the security feature developed by Nanotech will advance to the next stage, which involves demonstrating that the security feature can be manufactured in Nanotech's Thurso production facility. While the Company does not currently have visibility on if or when Nanotech's feature might be integrated into the customer's banknotes, moving from the lab to a production setting is a major advancement. The timing and scope of contract services in this next phase are expected to be agreed upon in September and will have a direct impact on the Company's fourth quarter and 2020 fiscal year. To date, Nanotech has recognized \$15 million of this potential \$30 million contract.
- **Market Nanotech's security feature product line.** The Company continues to pursue sales opportunities for optical thin film ("OTF") in the banknote and secure documents market. As announced on August 1, the Company expanded its business with a long-term customer by securing a new order for a custom OTF product that will be applied as a security feature in government-issued identification documents.

**Brand protection market.** The Company completed its first sale in the brand protection market this year and launched its LiveLogo and Dynamic Portrait products targeted for the commercial markets. During the quarter, Nanotech's sales team participated in targeted industry tradeshow and events to promote the

Company's brand protection product line. Nanotech's products have garnered strong interest from the industry, with several opportunities in the sales pipeline.

### **Financial Outlook**

Based on early indications of the fourth quarter contract services revenue, our revenue guidance for the fiscal year remains unchanged, with expected revenues of \$7.4 to \$8.3 million. At these revenues and with increased investments in sales, product development and other commercialization expenditures, the Company is on track to improve upon the targeted Adjusted EBITDA loss of up to \$1.0 million.

With a strong balance sheet, including \$9.6 million in cash and short-term investments and no debt, the Company is well positioned to continue to develop and pursue its product-based sales and marketing strategies in 2019.

### **Conference Call Details**

|                         |   |  |
|-------------------------|---|--|
| <b>Date &amp; Time:</b> | Thursday, August 8, 2019 - 5:00 P.M. Eastern  |  |
| <b>Dial-in number:</b>  | Toll Free:  | 1-800-239-9838                             |
|                         | Toll/International:   | 1-323-794-2551                             |
| <b>Conference ID:</b>   | 8101795   |  |
| <b>Taped replay:</b>    | Toll free (Canada and US):  | 1-844-512-2921                             |
|                         | Alternate number:   | 1-412-317-6671                             |
|                         | Replay pin number:  | 8101795                                    |
|                         | Replay start:   | Thursday August 8, 2019, 8:00 PM Eastern   |
|                         | Replay expiry:  | Sunday September 8, 2019, 11:59 PM Eastern |
| <b>Webcast:</b>         | <a href="http://public.viavid.com/index.php?id=135469">http://public.viavid.com/index.php?id=135469</a> |  |

**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<br>June 30 |                     |             | Nine months ended<br>June 30 |                     |             |
|---|-------------------------------|---------------------|-------------|------------------------------|---------------------|-------------|
|   | 2019                          | 2018 <sup>(1)</sup> | %<br>Change | 2019                         | 2018 <sup>(1)</sup> | %<br>Change |
| Revenue                                     | \$1,891,014                   | \$ 1,874,878        | 1%          | \$5,530,772                  | \$ 5,913,897        | (6%)        |
| Gross margin                                | 1,368,151                     | 1,556,088           | (12%)       | 3,910,788                    | 4,549,567           | (14%)       |
| Gross margin %                              | 72%                           | 83%                 |             | 71%                          | 77%                 |             |
| Adjusted EBITDA <sup>(2)</sup>              | 17,365                        | 100,344             | (83%)       | 180,023                      | 692,944             | (74%)       |
| Net loss                                    | (521,490)                     | (627,462)           | (17%)       | (2,130,406)                  | (816,352)           | 161%        |
| Loss per share                              |                               |                     |             |                              |                     |             |
| Basic and diluted                           | (0.01)                        | (0.01)              |             | (0.03)                       | (0.01)              |             |
| Weighted average number<br>of common shares |                               |                     |             |                              |                     |             |
| Basic and diluted                           | 68,959,001                    | 68,395,825          |             | 68,875,897                   | 68,395,825          |             |

<sup>(1)</sup>Results for the three and nine months ended June 30, 2018 have been adjusted to reflect the full retrospective application of IFRS 15 – *Revenue from Contracts with Customers* ("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 and nine months ended June 30, 2019.

<sup>(2)</sup>Adjusted EBITDA is a non-IFRS measure as described in the Non-IFRS Financial Measures section of this News Release.

| Financial Position as at:                         | June 30,<br>2019 | September 30,<br>2018 | %<br>Change |
|---|------------------|-----------------------|-------------|
| Cash, cash equivalents and short-term investments | \$ 9,611,617     | \$ 9,613,621          | 0%          |
| Total assets                                      | \$ 28,671,594    | \$ 30,229,055         | (5%)        |
| Total liabilities                                 | 1,331,172        | 1,325,139             | 1%          |
| Total equity                                      | 27,340,422       | 28,903,916            | (5%)        |

**Financial Statements and Management's Discussion and Analysis**

This news release should be read in conjunction with the Company's condensed consolidated interim financial statements and related notes, and management's discussion and analysis for the three and nine months ended June 30, 2019, copies of which can be found at [www.sedar.com](http://www.sedar.com).

**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 |              | Nine months ended |              |
|---------------------------------------|--------------------|--------------|-------------------|--------------|
|                                       | June 30            |              | June 30           |              |
|                                       | 2019               | 2018         | 2019              | 2018         |
| Net loss                              | \$ (521,490)       | \$ (627,462) | \$ (2,130,406)    | \$ (816,352) |
| Finance income                        | (49,343)           | (20,126)     | (150,308)         | (80,394)     |
| Foreign exchange (gain) loss          | 32,798             | (31,434)     | 2,460             | (255,293)    |
| Depreciation and amortization         | 386,496            | 406,021      | 1,167,865         | 1,186,419    |
| Share-based compensation              | 168,904            | 201,803      | 474,712           | 535,242      |
| Restructuring costs                   | -                  | -            | 815,700           | -            |
| Net loss from discontinued operations | -                  | 171,542      | -                 | 123,322      |
| Adjusted EBITDA                       | \$ 17,365          | \$ 100,344   | \$ 180,023        | \$ 692,944   |

## Nanotech Security Corp.

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

Three and nine months ended June 30, 2019 and 2108  
(In Canadian dollars)

|  | Three months ended<br>June 30 |                     | Nine months ended<br>June 30 |                     |
|--|-------------------------------|---------------------|------------------------------|---------------------|
|  | 2019                          | 2018 <sup>(1)</sup> | 2019                         | 2018 <sup>(1)</sup> |
| Revenue  | \$ 1,891,014                  | \$ 1,874,878        | \$ 5,530,772                 | \$ 5,913,897        |
| Cost of sales  | 522,863                       | 318,790             | 1,691,984                    | 1,364,330           |
|  | 1,368,151                     | 1,556,088           | 3,910,788                    | 4,549,567           |
| Expenses   |                               |                     |                              |                     |
| Research and development   | 416,722                       | 456,241             | 1,155,372                    | 1,194,917           |
| General and administration   | 613,740                       | 702,377             | 1,738,490                    | 1,934,490           |
| Sales and marketing  | 563,373                       | 569,274             | 1,536,917                    | 1,515,791           |
| Depreciation and amortization  | 370,977                       | 395,336             | 1,127,271                    | 1,114,034           |
| Restructuring costs  | -                             | -                   | 815,700                      | -                   |
|  | 1,964,812                     | 2,123,228           | 6,373,750                    | 5,759,232           |
| Loss from continuing operations before other expenses                | (596,661)                     | (567,140)           | (2,462,962)                  | (1,209,665)         |
| Other (income) expense   |                               |                     |                              |                     |
| Foreign exchange (gain) loss   | 32,798                        | (31,434)            | 2,460                        | (255,293)           |
| Finance income   | (49,343)                      | (20,126)            | (150,308)                    | (80,394)            |
| Tenant income  | (58,626)                      | (59,660)            | (184,708)                    | (180,948)           |
|  | (75,171)                      | (111,220)           | (332,556)                    | (516,635)           |
| Net loss from continuing operations                                  | (521,490)                     | (445,920)           | (2,130,406)                  | (693,030)           |
| Net loss from discontinued operations                                | -                             | (171,542)           | -                            | (123,322)           |
| Net loss   | (521,490)                     | (627,462)           | (2,130,406)                  | (816,352)           |
| Other comprehensive loss:  |                               |                     |                              |                     |
| Items that may be subsequently reclassified to earnings:             |                               |                     |                              |                     |
| Unrealized foreign exchange loss on translation of foreign operation | -                             | (28,140)            | -                            | (98,908)            |
| Total comprehensive loss   | \$ (521,490)                  | \$ (655,602)        | \$ (2,130,406)               | \$ (915,260)        |
| Basic and diluted earnings (loss) per share:                         |                               |                     |                              |                     |
| Continuing operations  | \$ (0.01)                     | \$ (0.01)           | \$ (0.03)                    | \$ (0.01)           |
| Discontinued operations  | \$ 0.00                       | \$ 0.00             | \$ 0.00                      | \$ 0.00             |
| Net loss   | \$ (0.01)                     | \$ (0.01)           | \$ (0.03)                    | \$ (0.01)           |
| Weighted average number of common shares                             |                               |                     |                              |                     |
| Basic and diluted  | 68,959,001                    | 68,395,825          | 68,875,897                   | 68,395,825          |

<sup>(1)</sup>Results for the three and nine months ended June 30, 2018 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 and nine months ended June 30, 2019.

## Nanotech Security Corp.

Condensed Consolidated Interim Statements of Financial Position  
(Unaudited)

(In Canadian dollars)

|   | June 30,<br>2019     | September 30,<br>2018 |
|---|----------------------|-----------------------|
| <b>Assets</b>   |                      |                       |
| Current assets:   |                      |                       |
| Cash and cash equivalents                                 | \$ 2,111,623         | \$ 2,014,764          |
| Short-term investments                                    | 7,499,994            | 7,598,857             |
| Accounts receivable                                       | 1,329,951            | 1,962,969             |
| Inventory   | 201,806              | 173,636               |
| Prepaid expenses and other assets                         | 259,104              | 125,514               |
|   | <u>11,402,478</u>    | <u>11,875,740</u>     |
| Property, plant and equipment                             | 15,880,658           | 16,964,857            |
| Goodwill  | 1,388,458            | 1,388,458             |
|   | <u>\$ 28,671,594</u> | <u>\$ 30,229,055</u>  |
| <b>Liabilities and Shareholders' Equity</b>               |                      |                       |
| Current liabilities:                                      |                      |                       |
| Accounts payable and accrued liabilities                  | \$ 1,297,404         | \$ 1,265,282          |
| Liabilities directly associated with assets held for sale | 10,793               | 16,204                |
|   | <u>1,308,197</u>     | <u>1,281,486</u>      |
| Non-current liabilities:                                  |                      |                       |
| Tenant inducement   | 22,975               | 43,653                |
|   | <u>1,331,172</u>     | <u>1,325,139</u>      |
| <b>Shareholders' equity</b>                               |                      |                       |
| Share capital   | 62,080,465           | 61,892,395            |
| Contributed surplus                                       | 3,309,806            | 2,930,964             |
| Deficit   | (38,049,849)         | (35,919,443)          |
|   | <u>27,340,422</u>    | <u>28,903,916</u>     |
|   | <u>\$ 28,671,594</u> | <u>\$ 30,229,055</u>  |

## Nanotech Security Corp.

Condensed Consolidated Interim Statements of Cash Flows  
(Unaudited)

Three and nine months ended June 30, 2019 and 2018  
(in Canadian Dollars)

|  | Three months ended<br>June 30 |              | Nine months ended<br>June 30 |              |
|--|-------------------------------|--------------|------------------------------|--------------|
|  | 2019                          | 2018         | 2019                         | 2018         |
| <b>Cash flows provided by (used in):</b>                   |                               |              |                              |              |
| <b>Operating activities:</b>                               |                               |              |                              |              |
| Net loss from continuing operations                        | \$ (521,490)                  | \$ (455,920) | \$ (2,130,406)               | \$ (693,030) |
| Items not involving cash:                                  |                               |              |                              |              |
| Depreciation and amortization                              | 386,496                       | 406,021      | 1,167,865                    | 1,186,419    |
| Share-based compensation                                   | 168,904                       | 201,803      | 566,912                      | 535,242      |
| Unrealized foreign exchange gain                           | (16,694)                      | -            | (16,694)                     | -            |
| Interest income  | (51,493)                      | (24,967)     | (156,600)                    | (89,266)     |
| Other  | (4,636)                       | (7,254)      | (17,859)                     | (22,376)     |
| Non-cash working capital changes                           | (457,346)                     | 541,453      | 529,444                      | 42,333       |
| Interest received  | 125,833                       | 25,328       | 185,651                      | 90,964       |
|  | (370,426)                     | 686,464      | 128,313                      | 1,050,286    |
| Net cash provided by (used in)<br>discontinued operations  | (434)                         | (3,018)      | (5,411)                      | 94,618       |
| Cash provided by (used in) operating<br>activities         | (370,860)                     | 683,446      | 122,902                      | 1,144,904    |
| <b>Investing activities:</b>                               |                               |              |                              |              |
| Purchase of property and equipment                         | (63,527)                      | (1,490,993)  | (93,503)                     | (2,478,900)  |
| Disposal of short-term investments                         | 203,314                       | -            | 203,314                      | -            |
| Net acquisition of short-term investments                  | (108,146)                     | -            | (136,321)                    | -            |
| Cash provided by (used in) investing<br>activities         | 31,641                        | (1,490,993)  | (26,510)                     | (2,478,900)  |
| Effect of foreign exchange on cash and<br>cash equivalents | 467                           | (28,140)     | 467                          | (98,908)     |
| Increase (decrease) in cash and cash<br>equivalents        | (338,752)                     | (835,687)    | 96,859                       | (1,432,904)  |
| Cash and cash equivalents, beginning of<br>period          | 2,450,375                     | 10,286,702   | 2,014,764                    | 10,883,919   |
| Cash and cash equivalents, end of period                   | \$ 2,111,623                  | \$ 9,451,015 | \$ 2,111,623                 | \$ 9,451,015 |

## 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](http://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](http://www.nanosecurity.ca), the Canadian disclosure filings website [www.sedar.com](http://www.sedar.com) or the OTCMarkets disclosure filings website [www.otcmarkets.com](http://www.otcmarkets.com).

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