



Nanotech Security Corp.

Six Months Ended March 31, 2015

Management Discussion & Analysis and
Unaudited Consolidated Financial Statements



Nanotech Security Corp.

Management's Discussion and Analysis
For the three and six months ended March 31, 2015

GENERAL OVERVIEW

Nanotech was incorporated under the laws of British Columbia, and is listed on the TSX Venture Exchange (trading symbol: NTS) and quoted in the United States on the OTCQX Market (trading symbol: NTSFF).

On May 1, 2015 the Company's head office relocated to Suite 505 - 3292 Production Way, Burnaby, BC, Canada V5A 4R4. The Company's registered and records office is Suite 1500 - 1055 West Georgia, Vancouver, BC, Canada V6E 4N7.

The Company operates its business through two business segments – Security Features and Surveillance. The Company's reportable segments are strategic business units that offer different products and services. They are managed separately because each business is in a different stage in its life cycle and they require different sales and marketing strategies.

Security Features

Security Features provides nano-optics and Optical Thin Film ("OTF") for use in anti-counterfeiting and authentication processes and products including currency, legal documents, and commercial products. The Company conducts research at each of its Burnaby head office, its research and production facility in Thurso, QC, Canada and at 4D Labs nanofabrication facility which is a Canadian federal government sponsored facility located at Simon Fraser University ("SFU") in Burnaby, BC.

The Security Features segment is developing nanotechnology and OTF for use in anti-counterfeiting and commercial product authentication systems. The Company is developing specialized optical features for use in banknotes and other products. The nanotechnology employs arrays of billions of nano-holes that are impressed or embossed onto a substrate material such as polymer and metal. These arrays yield unique light signatures (visual images) that cannot be easily reproduced by a third party without access to the technology and equipment needed to create the arrays. These optical features can be directly applied to banknotes and other valuable documents and products creating unique optical signatures that are both overt (naked-eye-visible) and machine (only) readable. These features are being designed to be suitable for a variety of other commercial security applications and branding formats. During the spring of 2014 the Company successfully demonstrated the commercialization of its nanotechnology product at the TED conference held in Vancouver, BC. Images of these features are available on the Company's website at: www.nanosecurity.ca

Surveillance

Surveillance designs and sells a wide range of sophisticated surveillance and intelligence gathering equipment and conducts surveillance training for the law enforcement and defense industries in the United States and Canada. The Company conducts its research, production and training at its facility in Holmes, PA, USA.

The Surveillance segment continues to build and outfit surveillance vans for undercover operations and delivered accredited classes in electronic surveillance. In the second half of 2014 the Company successfully launched the newly developed P-25 digital transmission system allowing federal, state and local law enforcement agencies to correspond to each other over a single frequency using both digital and analog frequencies, and the release of the Echo 8i that converts analog audio signals to digital, enabling secure smart-phone connectivity wirelessly.

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RESULTS OF OPERATIONS

The following table provides selected financial information for the three and six months ended March 31, 2015 and 2014:

Selected Financial Information

	Three months ended March 31,		Six months ended March 31,	
	2015	2014	2015	2014
Revenue	\$ 1,533,242	\$ 573,730	\$ 3,074,250	\$ 1,131,049
Cost of sales	809,424	371,975	1,819,082	741,245
	723,818	201,755	1,255,168	389,804
Expenses				
Research and development	956,258	489,695	1,803,954	899,679
General and administration	755,097	339,928	1,689,002	653,776
Sales and marketing	551,872	216,214	824,894	372,803
	2,263,227	1,045,837	4,317,850	1,926,258
Loss before other expenses (income)	(1,539,409)	(844,082)	(3,062,682)	(1,536,454)
Other expenses (income)	(644,887)	15,035	(1,236,889)	15,938
Net loss	\$ (894,522)	\$ (859,117)	\$ (1,825,793)	\$ (1,552,392)

Revenue

Revenues for the three months ended March 31, 2015 increased by \$959,512 to \$1,533,242 compared to \$573,730 in the same period last year. The increased revenues was largely a result of revenue generated by the new Security Features business unit which delivered revenue of \$873,000 primarily from the delivery of OTF and development contracts. The OTF production during the quarter remained strong; however one order representing about one month's production did not ship during the quarter and is expected to in the third or fourth quarter. The Surveillance division again saw modest growth over both the previous quarter and the same period last year, due largely to the delivery of three surveillance vans, and steady product sales.

The revenues for the six months ended March 31, 2015 increased by \$1,943,201 to \$3,074,250 compared to \$1,131,049 in the same period last year. The increased revenues was again reflected in the revenue generated by the new Security Features business unit which delivered revenue of \$1,918,864 primarily from the delivery of OTF and development contracts. The Surveillance division saw modest growth over the same period last year.

Gross Margin

Gross margin for the three months ended March 31, 2015 increased by \$522,063 to \$723,818 compared to \$201,755 in the same period last year, and showed an increase of \$192,468 over the first quarter. The increase in gross margin compared to the same period last year, reflected the new revenue from the Security Features division and the improvement over the first quarter was as a result of a larger mix of higher priced OTF shipped during the quarter. Overall gross margin percentage was 47% for the three months ended March 31, 2015, an improvement from the 35% in the same period last year, and the 34% reported in the first quarter.

Gross margin for the six months ended March 31, 2015, increased by \$865,364 to \$1,255,168 compared to \$389,804 over the same period last year. The increase in gross margin, compared to the same period last year, reflected the new revenue from the Security Features division. Overall, gross margin percentage improved to 41% compared to 34% for the same period in the prior year.

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Research and Development

Research and development expenditures for the three months ended March 31, 2015 were \$956,258, an increase of \$466,563 compared to \$489,695 in the same period last year. These costs included \$340,309 of amortization of intangible assets in both periods, partially offset by government funding of \$43,362 in the three months ended March 31, 2015 and \$67,185 in the three months ended March 31, 2014.

Research and development expenditures for the six months ended March 31, 2015 were \$1,803,954, an increase of \$904,275 compared to \$899,679 in the same period last year and included \$680,619 of amortization of intangible assets in both periods, partially offset by government funding of \$82,362 in the six months ended March 31, 2015 and \$122,721 in the six months ended March 31, 2014.

The overall increase in research and development activity in both the three and six months ended March 31, 2015 reflected the acquisition of Fortress Optical Features Ltd. ("FOF") and its development activity which focused on new security features targeted for the bank note market.

General and Administration

General and administration expenditures for the three months ended March 31, 2015 were \$755,097, an increase of \$415,169 compared to \$339,928 in the same period last year. General and administration expenditures for the six months ended March 31, 2015 were \$1,689,002, an increase of \$1,035,226 compared to \$653,776 for the same period last year.

The overall increase in general and administrative expense for the three and six months ended March 31, 2015 reflects the acquisition of FOF and includes an increase in non-cash share based compensation, professional fees and depreciation. Depreciation of \$166,229 was recorded for the three months ended March 31, 2015 (March 31, 2014 - \$3,691) and \$355,078 for the six months ended March 31, 2015 (March 31, 2014 - \$7,199).

Sales and Marketing

Sales and marketing expenditures for the three months ended March 31, 2015 were \$551,872, an increase of \$335,658 compared to \$216,214 in the same period last year. Sales and marketing expenditures for the six months ended March 31, 2015 were \$824,894, an increase of \$452,091 compared to \$372,803 in the same period last year.

The increase in sales and marketing activities in the three and six months end March 31, 2015 reflect the new access to bank note sales channels acquired in the strategic acquisition of FOF. During the period management made a focused effort to visit each customer relationship and present them with our Security Features products. These meetings have been very positively received and the interest in the KolourOptik nanotechnology is very promising.

Net loss

The net loss for the three months ended March 31, 2015 remained consistent at \$894,522 compared to \$859,117 during the same period last year. The net loss reflects an increase in gross margin of \$522,063 largely related to new Security Features sales, partially offset by an increase in depreciation and amortization of \$234,377 related to the production facility, an increase in non-cash share based compensation of \$269,581, an increase in sales and marketing expenses of \$335,658 and increased overhead expenses including salaries and administrative costs. These were further offset by a gain on revaluation of contingent shares of \$560,000 that reflects management's assessment of the likelihood of the earn-out shares being issued multiplied by the current share price at March 31, 2015.

The net loss for the six months ended March 31, 2015 increased from \$1,552,392 to \$1,825,793 compared to the same period last year. The net loss reflects an increase in gross margin of \$865,364 largely related to new Security Features sales, partially offset by an increase in depreciation and amortization of \$467,714 related to the production facility, an increase in non-cash share based compensation of \$379,231, an increase in sales and marketing expenses of \$452,091 and increased overhead expenses including salaries

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and administrative costs. These were further offset by a gain on revaluation of contingent shares of \$1,160,000.

RESULTS BY SEGMENT

The Company analyzes financial performance by segments, which regroup related activities within the Company. The Company's two reportable operating segments are Security Features and Surveillance. Inter-segment transactions have been eliminated from the segmented financial information discussed below.

Security Features

Security Features provides nano-optics and OTF for use in anti-counterfeiting and authentication processes and products including currency, legal documents, and commercial products.

	Three months ended March 31,		Six months ended March 31,	
	2015	2014	2015	2014
Revenue	\$ 873,414	\$ 8,200	\$ 1,918,864	\$ 8,718
Net loss	(1,016,007)	(830,648)	(1,903,618)	(1,535,403)

Revenues from Security Features for the three months ended March 31, 2015 increased to \$873,414 from \$8,200 for the same period last year. Revenues from Security Features for the six months ended March 31, 2015 increased to \$1,918,864 from \$8,718 for the same period last year. The increased revenue was primarily from the delivery of OTF and development contracts in the Thurso production facility.

The net loss from Security Features for the three months ended March 31, 2015 increased by \$185,359 to \$1,016,007 from \$830,648 for the same period last year. The net loss from Security Features for the six months ended March 31, 2015 increased by \$368,215 to \$1,903,618 from \$1,535,403 for the same period last year. The increased net loss for both the three and six month periods were as a result of increased depreciation related to the production facility used by the OTF business, an increase in general and administrative costs including office salaries and share-based compensation and were offset by a gain on revaluation of contingent shares of \$560,000 in the three months ended March 31, 2015 and \$1,160,000 in the six months ended March 31, 2015.

Surveillance

Surveillance designs and sells sophisticated surveillance and intelligence gathering equipment for the law enforcement and defense industries in the United States and Canada.

	Three months ended March 31,		Six months ended March 31,	
	2015	2014	2015	2014
Revenue	\$ 659,828	\$ 565,530	\$ 1,155,386	\$ 1,122,331
Net income (loss)	121,485	(28,469)	77,825	(16,989)

Revenues from Surveillance for the three months ended March 31, 2015 increased to \$659,828 from \$565,530 for the same period last year. Revenues from Surveillance for the six months ended March 31, 2015 increased to \$1,155,386 from \$1,122,331. The increased revenue for both the three and six months end March 31, 2015 was a result an increase in the number of surveillance vans being delivered.

Net income from Surveillance for the three months ended March 31, 2015 was \$121,485 compared to a net loss of \$28,469 for the same period last year. Net income from Surveillance for the six months ended March 31, 2015 was \$77,825 compared to a net loss of \$16,989 for the same period last year.

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QUARTERLY RESULTS

	Q2 2015	Q1 2015	Q4 2014	Q3 2014	Q2 2014	Q1 2014	Q4 2013	Q3 2013
(\$ thousands, except common share amounts)								
Revenue	\$1,533	\$1,541	\$488	\$603	\$578	\$557	\$459	\$403
Net income (loss)	(895)	(931)	2,285	(1,116)	(859)	(693)	(727)	(525)
Net income (loss) per common share –								
Basic	(0.02)	(0.02)	0.05	(0.03)	(0.02)	(0.02)	(0.02)	(0.02)
Diluted	(0.02)	(0.02)	0.04	(0.03)	(0.02)	(0.02)	(0.02)	(0.02)

There are no seasonal effects or other trends in the Company's business over the quarters presented. The net income in Q4 2014 was the result of a non-recurring deferred income tax recovery of \$3,892,000. The recovery was triggered by the application of previously unrecognized income tax assets of the company being utilized to offset deferred tax liabilities which were created on the acquisitions of IDME Technologies Corp., IDIT Technologies Corp. and FOF.

The increased revenue in Q1 and Q2 2015 was as a result of revenues produced by the new Security Features business unit which commenced that quarter.

RELATED PARTY TRANSACTIONS

For the three months ended March 31, 2015, 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) The remuneration of key management personnel is as follows:

	Three months ended March 31,		Six months ended March 31,	
	2015	2014	2015	2014
Salaries and employee benefits	\$ 221,105	\$ 50,010	\$ 444,636	\$ 100,020
Share based payments	147,603	-	211,432	-
	\$ 368,708	\$ 50,010	\$ 656,068	\$ 100,020

- (b) Management fees totaling \$125,310 for the three months ended March 31, 2015 (March 31, 2014 - \$61,710) and \$151,870 for the six months ended March 31, 2015 (March 31, 2014 - \$124,200) charged by a company controlled by an officer and director of the Company, were included in salaries and benefits expense. As of March 31, 2015, amounts owing to this company included in accounts payable and accrued liabilities were \$315,817 (September 30, 2014 - \$286,490).
- (c) Legal and professional fees, taxes and disbursements totaling \$56,513 for the three months ended March 31, 2015 (March 31, 2014 - \$35,088) and \$80,194 for the six months ended March 31, 2015 (March 31, 2014 - \$54,852) were incurred with a law firm of which a director of the Company is a partner. As of March 31, 2015, amounts owing to this company included in accounts payable and accrued liabilities were \$148,689 (September 30, 2014 - \$425,370).

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.

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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 operations, working capital, including supplier payables, capital expenditures, and fixed overhead costs. Cash is also used to finance other long term strategic business initiatives. As at March 31, 2015, cash and cash equivalents totaled \$2,084,023, compared to \$3,964,645 as at September 30, 2014.

Summary of Statement of Cash Flow

	Three months ended March 31,		Six months ended March 31,	
	2015	2014	2015	2014
Cash used in operating activities ¹	\$ (617,979)	\$ (526,532)	\$ (1,431,567)	\$ (853,956)
Changes in operating assets and liabilities	(531,468)	(128,263)	(836,956)	(384,880)
Cash used in operating activities	(1,149,447)	(654,795)	(2,268,523)	(1,238,836)
Cash (used in) provided by investing activities	(52,392)	(7,578)	(258,684)	1,913
Cash provided by financing activities	661,725	28,125	735,975	28,125
Effect of foreign currency translation on cash and cash equivalents	(61,281)	34,557	(89,390)	60,584
Decrease in cash and cash and cash equivalents	(601,395)	(599,691)	(1,880,622)	(1,148,214)
Cash and cash equivalents, beginning of period	2,685,418	3,607,288	3,964,645	4,155,811
Cash and cash equivalents, end of period	\$ 2,084,023	\$ 3,007,597	\$ 2,084,023	\$ 3,007,597

¹ Before changes in operating assets and liabilities

Operating Activities

Cash used in operating activities was \$1,149,447 for the three months ended March 31, 2015, compared to \$654,795 for the same period last year. The cash used reflects \$531,468 that was required for increased working capital as a significant OTF order was unable to ship during the quarter and the remaining \$617,979 representing the non-working capital cash used in operations.

The overall increase in cash used in operating activities during the second quarter was \$494,652 compared to the same period last year and largely reflect the investment in working capital for the Security Features business. Compared to the first quarter, the Company saw an improvement in cash used in non-working capital operations by \$225,980 offset by an increased use of cash for working capital by \$195,609

Cash used in operating activities was \$2,268,523 for the six months ended March 31, 2015, compared to \$1,238,836 for the same period last year. The cash used reflects \$836,956 that was required for increased working capital with the remaining \$1,431,567 representing the cash used in non-working capital operations.

Investing Activities

For the three months ended March 31, 2015, \$52,392 was used in investing activities, compared to \$7,578 used in the same period in 2014. For the six months ended March 31, 2015, \$258,684 was used in investing activities, compared to \$1,913 generated in the same period in 2014. The increase in investing activities is due to increased capital investments to upgrade the OTF production equipment to improve efficiencies.

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Financing Activities

For the three months ended March 31, 2015, \$661,725 was provided by financing activities, compared to \$28,125 received in the same period in 2014. This increase represented 735,250 share purchase warrants being exercised for proceeds of \$661,725.

For the six months ended March 31, 2015, \$735,975 was provided by financing activities, compared to \$28,125 received in the same period in 2014. This increase represented 817,750 share purchase warrants being exercised for proceeds of \$735,975.

Capital Resources

	<u>March 31, 2015</u>	<u>September 30, 2014</u>
Cash and cash equivalents	\$2,084,023	\$3,964,645
Working capital	\$2,612,601	\$3,656,267
Long-term debt	\$4,940,000	\$6,100,000
Common Shares Outstanding	49,125,684	48,307,934

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 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 has recurring operating losses and an accumulated deficit of \$20,444,200 as of March 31, 2015 and \$18,618,407 as of September 30, 2014. The Company also expects to continue to incur substantial expenses relating to its research and development efforts in nano-optics. As a result, the Company expects to incur significant losses in the next year unless it is able to realize revenue after commercialization of its products under development. The timing and amount of such revenues, if any, cannot be predicted with certainty. The Company's ability to continue as a going concern is dependent on its ability to obtain significant additional financing in order to meet its planned business objectives and to be able to commercialize products currently in development. The Company will need to raise funds and is pursuing additional funds through grants, strategic collaborations, public or private equity or debt financing or other funding sources. This funding may not be available on acceptable terms, or at all, and may be dilutive to shareholder interests. However, there can be no assurance that the Company will be able to obtain additional financial resources. If the Company is unable to generate positive cash flows or obtain adequate financing, the Company will need to curtail operations and development activities. These factors may cast significant doubt regarding the Company's ability to continue as a going concern. Should the Company be unable to realize its assets and discharge its liabilities in the normal course of business the net realizable value of its assets may be materially less than the amounts on the statement of financial position.

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 are responsible for overseeing this process. In managing its capital the Company considers changes in economic conditions, risk that impact consolidated operations, and future significant capital investment opportunities. For the three months ended March 31, 2015, there were no other changes in our approach to capital management.

The Company had no commitments for material capital expenditures as of March 31, 2015.

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

Management has reviewed its projected funding requirements and expects that through the generation and collection of revenues and or being able to raise additional financing, that the Company will maintain sufficient liquidity to meet its requirements through March 31, 2016.

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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 the Company's MD&A and consolidated financial statements for the year ended September 30, 2014. In the three months ended March 31, 2015, there was no material change to the nature of the risks arising from our classification of financial instruments, or related risk management objectives.

ADDITIONAL INFORMATION

Outlook

Nanotech is presently developing and seeking to market its authentication feature under several trademarks including *KolourOptik™ NOtES™ (Nano-Optic Technology for Enhanced Security)* technology and *Plasmogram™*. The Company anticipates that significant investment will be required to commercialize the technology. The Company may seek to involve third parties in joint venturing, partnering or otherwise funding such development activities failing which it will be required to seek to raise additional funds which will cause equity dilution to existing shareholders. The Company is currently presenting the technology to the bank note industry and other potential security authentication industry customers and is also working towards possible commercial licensing applications with third party specialists who supply security and brand recognition/protection features to the product marketplace. There can be no assurance that a successful product will be developed or that if developed any product will be commercially viable or competitive.

Risks & Uncertainties

For a complete list of risks and uncertainties related to the Company, please refer to the Company's MD&A for the year ended September 30, 2014, which is available on SEDAR at www.sedar.com.

Outstanding Share Data

The Company's articles of incorporation authorize the issuance of an unlimited number of common shares and an unlimited number of preferred shares.

The Company's outstanding share data as at May 29, 2015 is as follows:

Issued shares	49,125,684
Warrants	3,645,426
Stock options outstanding	2,032,000

Public Securities Filings

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

Condensed Consolidated Interim Financial Statements of

Nanotech Security Corp.

Three and six months ended March 31, 2015 and 2014
(Unaudited)

Nanotech Security Corp.
March 31, 2015 and 2014

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Nanotech Security Corp.

Consolidated Statements of Operations and Comprehensive Loss
(Unaudited)

(In Canadian dollars)	Three months ended March 31,		Six months ended March 31,	
	2015	2014 (Restated) (note 6(c))	2015	2014 (Restated) (note 6(c))
Revenue	\$ 1,533,242	\$ 573,730	\$ 3,074,250	\$ 1,131,049
Cost of sales (note 12)	809,424	371,975	1,819,082	741,245
	723,818	201,755	1,255,168	389,804
Expenses (note 12)				
Research and development	956,258	489,695	1,803,954	899,679
General and administration	755,097	339,928	1,689,002	653,776
Sales and marketing	551,872	216,214	824,894	372,803
	2,263,227	1,045,837	4,317,850	1,926,258
Loss before other expenses	(1,539,409)	(844,082)	(3,062,682)	(1,536,454)
Other expenses (income)				
Foreign exchange (gain) loss	(125,061)	16,644	(151,871)	27,419
Finance expense (income)	40,174	(1,609)	74,982	(2,636)
Gain on revaluation of contingent shares	(560,000)	-	(1,160,000)	-
Gain on sale of fixed asset	-	-	-	(8,845)
	(644,887)	15,035	(1,236,889)	15,938
Net loss	(894,522)	(859,117)	(1,825,793)	(1,552,392)
Other comprehensive income (loss)				
Items that may be subsequently reclassified to earnings:				
Unrealized foreign exchange gain (loss) on translation of foreign operation	(60,375)	36,037	(83,763)	63,504
Total comprehensive loss for the period	\$ (954,897)	\$ (823,080)	\$ (1,909,556)	\$ (1,488,888)
Net loss per share:				
Basic and diluted	\$ (0.02)	\$ (0.02)	\$ (0.04)	\$ (0.04)
Weighted average number of common shares:				
Basic and diluted	48,751,267	38,765,164	48,539,720	38,760,600

See accompanying notes to condensed consolidated interim financial statements.

Nanotech Security Corp.

Consolidated Statements of Financial Position
(Unaudited)

(In Canadian dollars)

	March 31, 2015	September 30, 2014
Assets		
Current assets:		
Cash and cash equivalents	\$ 2,084,023	\$ 3,964,645
Accounts receivable	1,360,463	526,410
Inventory	724,002	598,526
Prepaid expenses and other assets	227,294	188,858
	<u>4,395,782</u>	<u>5,278,439</u>
Property, plant and equipment	18,778,901	18,995,321
Intangible assets	3,406,807	4,087,634
Goodwill (note 6)	1,388,458	1,388,458
	<u>\$ 27,969,948</u>	<u>\$ 29,749,852</u>
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 1,783,181	\$ 1,597,172
Deferred revenue	-	25,000
	<u>1,783,181</u>	<u>1,622,172</u>
Long term liabilities:		
Note payable	3,000,000	3,000,000
Contingent consideration shares (note 6 and 7)	1,940,000	3,100,000
	<u>6,723,181</u>	<u>7,722,172</u>
Shareholders' equity		
Share capital (note 9)	40,293,041	39,557,066
Share based payment reserve	1,536,238	1,143,570
Deficit	(20,444,200)	(18,618,407)
Accumulated other comprehensive loss	(138,312)	(54,549)
	<u>21,246,767</u>	<u>22,027,680</u>
	<u>\$ 27,969,948</u>	<u>\$ 29,749,852</u>

Nature of operations and going concern (note 1)

See accompanying notes to condensed consolidated interim financial statements.

Nanotech Security Corp.

Consolidated Statements of Changes in Equity
(Unaudited)

Six months ended March 31, 2015 and 2014
(In Canadian dollars)

	Number of shares	Share capital	Share based payment reserve	Deficit	Accumulated other comprehensive income (loss)	Total shareholders' equity	Non-controlling interest	Total equity
Balance as at September 30, 2013	38,756,136	\$ 26,409,880	\$ 755,138	\$(18,124,376)	\$ (11,629)	\$ 9,029,013	\$ (14,924)	\$ 9,014,089
Net earnings (loss)	-	-	-	(1,550,885)	-	(1,550,885)	(1,507)	(1,552,392)
Unrealized foreign exchange gain (loss) on translation	-	-	-	-	63,504	63,504	-	63,504
Warrants exercised	31,250	28,125	-	-	-	28,125	-	28,125
Options exercised	-	-	13,437	-	-	13,437	-	13,437
Balance as at March 31, 2014	38,787,386	\$ 26,438,005	\$ 768,575	\$(19,675,261)	\$ 51,875	\$ 7,583,194	\$ (16,431)	\$ 7,566,763

	Number of shares	Share capital	Share based payment reserve	Deficit	Accumulated other comprehensive income (loss)	Total shareholders' equity	Non-controlling interest	Total equity
Balance as at September 30, 2014	48,307,934	\$ 39,557,066	\$ 1,143,570	\$(18,618,407)	\$ (54,549)	\$ 22,027,680	\$ -	\$ 22,027,680
Net earnings (loss)	-	-	-	(1,825,793)	-	(1,825,793)	-	(1,825,793)
Unrealized foreign exchange gain (loss) on translation	-	-	-	-	(83,763)	(83,763)	-	(83,763)
Warrants exercised (note 9)	817,750	735,975	-	-	-	735,975	-	735,975
Share based payments	-	-	392,668	-	-	392,668	-	392,668
Balance as at March 31, 2015	49,125,684	\$ 40,293,041	\$ 1,536,238	\$(20,444,200)	\$ (138,312)	\$ 21,246,767	\$ -	\$ 21,246,767

See accompanying notes to condensed consolidated interim financial statements.

Nanotech Security Corp.

Consolidated Statements of Cash Flows

(Unaudited)

(In Canadian dollars)	Three months ended March 31,		Six months ended March 31,	
	2015	2014	2015	2014
Operating activities:				
Net loss	\$ (894,522)	\$ (859,117)	\$ (1,825,793)	\$ (1,552,392)
Items not involving cash:				
Depreciation and amortization	581,471	347,094	1,161,558	693,844
Share based compensation	255,072	(14,509)	392,668	13,437
Gain on revaluation of contingent shares	(560,000)	-	(1,160,000)	-
Gain on sale of asset	-	-	-	(8,845)
Non-cash working capital changes (note 10)	(531,468)	(128,263)	(836,956)	(384,880)
Cash used in operating activities	(1,149,447)	(654,795)	(2,268,523)	(1,238,836)
Investing activities:				
Purchase of property and equipment, net of disposals	(52,392)	(7,578)	(258,684)	1,913
Cash (used in) provided by investing activities	(52,392)	(7,578)	(258,684)	1,913
Financing activities:				
Issuance of shares for warrants exercised	661,725	28,125	735,975	28,125
Cash provided by financing activities	661,725	28,125	735,975	28,125
Effect of foreign exchange on cash and cash equivalents	(61,281)	34,557	(89,390)	60,584
Decrease in cash and cash equivalents	(601,395)	(599,691)	(1,880,622)	(1,148,214)
Cash and cash equivalents, beginning of period	2,685,418	3,607,288	3,964,645	4,155,811
Cash and cash equivalents, end of period	\$ 2,084,023	\$ 3,007,597	\$ 2,084,023	\$ 3,007,597

See accompanying notes to condensed consolidated interim financial statements.

Nanotech Security Corp.

Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited)

Three and six months ended March 31, 2015 and 2014
(In Canadian dollars)

1. Summary of business and nature of operations:

(a) 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 is a global security features company, providing light based recognition nanotechnology and Optical Thin Film ("OTF") for use in anti-counterfeiting and authentication processes and products including currency, legal documents, and commercial products. Its wholly-owned subsidiary, Tactical Technologies Inc. ("TTI"), designs and sells sophisticated surveillance and intelligence gathering equipment for the law enforcement and defense industries in the United States and Canada.

(b) Nature of operations and going concern

These condensed consolidated interim financial statements have been prepared on the basis that the Company will continue as a going concern. The Company has recurring operating losses and an accumulated deficit of \$20,444,200 as of March 31, 2015 (\$18,618,407 as of September 30, 2014). The Company also expects to continue to incur substantial expenses relating to its research and development efforts in nano-optics and OTF. As a result, the Company expects to incur significant losses in the next few years until it is able to realize revenue following the recent commercialization of its products. The timing and amount of such revenues, if any, cannot be predicted with certainty. The Company's ability to continue as a going concern is dependent on its ability to generate revenues or additional financing in order to meet its planned business objectives and to be able to commercialize future products currently in development. The Company may need to raise funds through grants, strategic collaborations, public or private equity, debt financing, or other funding sources. This funding may not be available on acceptable terms, or at all, and may be dilutive to shareholder interests. If the Company is unable to generate positive cash flows or obtain adequate financing, the Company may need to curtail operations and development activities. These factors cast significant doubt on the Company's ability to continue as a going concern. Should the Company be unable to realize its assets and discharge its liabilities in the normal course of business the net realizable value of its assets may be materially less than the amounts on the statement of financial position.

2. Basis of preparation:

These condensed consolidated interim financial statements were prepared using the same accounting policies and methods as those used in the Company's consolidated financial statements for the year ended September 30, 2014, except as described in note 3. These condensed consolidated interim financial statements have been prepared in compliance with IAS 34 – *Interim Financial Reporting*. Accordingly, certain disclosures normally included in annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") have been omitted or condensed. These condensed consolidated interim financial statements should be read in conjunction with the Company's consolidated financial statements for the year ended September 30, 2014, which are included in the Company's 2014 annual report.

Nanotech Security Corp.

Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited)

Three and six months ended March 31, 2015 and 2014
(In Canadian dollars)

2. Basis of preparation (continued):

These condensed consolidated interim financial statements include the accounts of the Company and its wholly-owned subsidiary, TTI. All intercompany balances and transactions are eliminated on consolidation. The financial statements of the subsidiary are included in the consolidated financial statements from the date that control commences.

The Company acquired 100% of IDIT Technologies Corp. ("IDIT") and 95% of IDME Technologies Corp. ("IDME") on September 27, 2013 and the remaining 5% of IDME on May 5, 2014. On September 29, 2014, the Company underwent a reorganization whereby 100% of the assets and liabilities of IDIT and IDME were wound up into the Company and IDME and IDIT were dissolved.

The Company acquired 100% of Fortress Optical Features Ltd. "FOF" on September 16, 2014. Subsequently on October 1, 2014, FOF was amalgamated into the Company.

These condensed consolidated interim financial statements were approved by the Company's Board of Directors and authorized for issue on May 29, 2015.

3. Significant accounting policy:

During the quarter, the Company adopted a Restricted Share Unit ("RSU") Plan. The Company measures the cost of equity-settled share based transactions by reference to the fair value of the equity instruments at the date at which they are granted. For RSUs, the Company uses the TSX share price at the grant date as fair value of the RSUs. The resulting fair value is then adjusted for an estimated forfeiture amount. Determination of the forfeiture rate is based on historical experience. The actual number of RSUs that vest is likely to be different from estimation.

4. New standards and interpretations not yet adopted:

IFRS 9 - *Financial Instruments*:

In November 2013, the IASB issued IFRS 9 - *Financial Instruments (Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39)*. IFRS 9 (2009) establishes the measurement and classification of financial assets. Financial assets are measured either at fair value through earnings or at amortized cost if certain conditions are met. IFRS 9 (2010) includes guidance on the classification and measurement of financial liabilities. The most recent amendment, IFRS 9 (2013) includes a new general hedge accounting model which will align hedge accounting more closely with risk management. The effective date of this standard is January 1, 2018. The Company is currently evaluating the impact of IFRS 9 on its financial statements and expects to apply the standard to its financial statements beginning October 1, 2018.

IFRS 15 – *Revenue from contracts with customers*:

In May 2014, the IASB issued IFRS 15 – *Revenue from contracts with customers* which sets out the principles for when revenue should be recognized and how it should be measured, together with related disclosures. The new standard replaces all current revenue standards and interpretations in IFRS and is effective for fiscal periods beginning on or after January 1, 2018. The new standard is to be applied retrospectively. The Company is currently evaluating the impact of IFRS 15 on its financial statements and expects to apply this new standard to its financial statements beginning on October 1, 2018.

Nanotech Security Corp.

Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited)

Three and six months ended March 31, 2015 and 2014
(In Canadian dollars)

5. Comparative information:

The Company reclassified certain items in the condensed consolidated interim statements of operations and comprehensive loss to conform to the current period's presentation. This reclassification had no impact on the net loss or total comprehensive loss.

6. Acquisitions of IDME and IDIT:

(a) On September 27, 2013, pursuant to a share exchange agreement for a combined transaction, the Company completed the acquisition of controlling interests in two privately held British Columbia corporations, IDIT and IDME, from whom the Company had sublicensed its anti-counterfeiting technology. As consideration, the Company agreed to issue a total of 3,940,000 common shares in exchange for 100% of the issued and outstanding common shares of IDIT and 95% of the issued and outstanding common shares of IDME. The fair value of the equity shares issued was based on the market value of Nanotech's traded shares on September 27, 2013, the acquisition date.

The fair value of the net assets acquired does not include certain common shares of the Company still registered in the name of IDME as of September 30, 2013 because these shares had been reserved for distribution to the former shareholders of IDME prior to the date of acquisition.

Two of the Company's directors and a Vice President were among the vendors of the IDIT and IDME common shares for total of 3,740,000 shares. Included in the 3,940,000 common shares issuable are 234,897 common shares issuable subject to prior approval of the Company's disinterested shareholders (the "Contingent shares") as the Company did not have sufficient authorized shares at the acquisition date. At the Annual General Meeting held on April 16, 2014, the disinterested shareholders voted to approve the issuance of the shares. These shares were issued in June 2014. All common shares issued by the Company in connection with the acquisition will be escrowed and the escrow will allow for 25% semi-annual releases over two years from closing starting six months from closing.

The acquisition eliminates a 6% gross revenue royalty on product sales and also results in the Company acquiring direct ownership of the principal nanotechnology patents, as well as ownership of additional intellectual property in related fields. The Company's products and services will now be subject to a 3% sales royalty in favour of Simon Fraser University where elements of the nanotechnology originated.

The acquisition of IDIT and IDME in a combined transaction, have been accounted for using the purchase method with the provisional fair values of the assets acquired, and liabilities assumed.

(b) On May 5, 2014, the Company acquired, by exercising a compulsory acquisition right, the remaining 5% of IDME shares from Simon Fraser University. The Company now owns 100% of IDME. As consideration the Company agreed to issue a total of 60,000 common shares in exchange for the remaining 5% of the issued and outstanding common shares of IDME. The fair value of the equity shares issued was based on the market value of Nanotech's traded shares on May 5, 2014, the acquisition date, and was accounted for as a separate transaction with the charge going directly against retained earnings.

Nanotech Security Corp.

Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited)

Three and six months ended March 31, 2015 and 2014
(In Canadian dollars)

6. Acquisitions of IDME and IDIT (continued):

(c) On September 27, 2013, the Company recognized the major classes of assets acquired and liabilities assumed at the acquisition date based on estimated fair values. During the year ended September 30, 2014, the Company finalized the provisional amounts in the initial purchase price allocation and finalized the estimated fair value of intellectual property acquired that resulted in an increase to intangible assets of \$5,444,954, an increase to deferred tax liability of \$1,388,458, and a corresponding decrease to goodwill of \$4,056,496.

As prescribed by IFRS 3, these adjustments were applied retrospectively to the acquisition date of September 27, 2013 and as a result of the amortization of the intangible assets, research and development expense for the three and six month period ended March 31, 2014 increased by \$340,609 and \$680,619 respectively from the amount previously reported.

The following table summarizes the fair value of the consideration transferred and the final purchase price allocation based on estimated fair values of the major classes of assets acquired and liabilities assumed at the acquisition date:

3,705,103 Common shares at \$1.31 per share	\$ 4,853,685
234,897 Contingent common shares at \$1.31 per share	307,715
Fair value of equity consideration	\$ 5,161,400
Non-controlling interest - proportionate share of net assets	\$ 14,924
Recognized amounts of identifiable net assets:	
Accounts receivable	487,406
Property and equipment	2,550
Intangible assets	5,444,954
Goodwill	1,388,458
Accounts payable and accrued liabilities	(788,434)
Deferred income tax	(1,388,458)
Fair value of net identifiable assets acquired	\$ 5,161,400

The Company incurred acquisition related costs of \$49,852 related to professional fees which have been expensed as incurred.

7. Acquisition of FOF:

On September 16, 2014 pursuant to a share and loan purchase agreement ("Purchase Agreement") with an arms-length vendor, the Company completed a transaction to acquire 100% of the issued and outstanding shares of FOF, a producer of OTF used as security threads in banknotes in several countries. Under the terms of the Purchase Agreement, the Company paid \$7,179,822 cash, issued 5 million common shares of Nanotech and a secured note of \$3,000,000 with an interest rate of 4% per annum. Of this consideration, 3 million common shares are escrowed and shall be released based on certain specific performance milestones based on sales of product to new customers over up to five years and thus represent contingent consideration as defined in IFRS 3. Shares may be released early in the event of a sale of the business or change of control of the Company and any unearned shares will be returned to the Company.

Nanotech Security Corp.

Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited)

Three and six months ended March 31, 2015 and 2014
(In Canadian dollars)

7. Acquisition of FOF (continued):

The Purchase Agreement included a post-completion requirement for FOF to enter into a lease agreement whereby a majority of its building will be leased to an affiliate of the vendor for up to 10 years, to enter into a shared services agreement whereby FOF and an affiliate of the vendor will share certain utility and security services and a supply agreement whereby another affiliate of the vendor will have the right to purchase product from FOF on most favoured basis subject to certain minimum purchase commitments.

Concurrent with the FOF acquisition, the Company also completed a private placement of 6,772,151 subscription receipts of the Company (the "Subscription Receipts") at a price of \$1.50 per Subscription Receipt, for gross proceeds to the Company of \$10,158,227. The Subscription Receipts automatically converted, without additional payment, into one Common share and one-half of a Common share purchase warrant of the Company for each Subscription Receipt concurrently with completion of the FOF acquisition. Each whole purchase warrant entitles the holder to purchase one common share of the Company at a price of \$1.90 for a period of one year from issuance. The warrants are subject to accelerated expiry in the event that the common shares of the Company trade in excess of \$2.25 for a ten day period after the four month resale restricted period expires.

On September 30, 2014, the Company recognized the major classes of assets acquired and liabilities assumed at the acquisition date based on estimated fair values. The following table summarizes the preliminary fair value of the consideration transferred and the purchase price allocation based on estimated fair values of the major classes of assets acquired and liabilities assumed at the acquisition date.

Cash	\$ 7,179,822
Secured note	3,000,000
2,000,000 Common shares at \$1.59 per share	3,180,000
3,000,000 Contingent consideration common shares	3,180,000
Fair value of consideration	\$ 16,539,822
<hr/>	
Cash	\$ 118,822
Inventory	274,721
Accounts receivable	87,973
Manufacturing equipment	15,144,236
Building	3,619,100
Land	141,700
Accounts payable and accrued liabilities	(342,738)
Deferred income tax	(2,503,992)
Fair value of net identifiable assets acquired	\$ 16,539,822

The Company incurred acquisition related costs of \$258,376 related to professional fees which have been expensed as incurred.

Nanotech Security Corp.

Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited)

Three and six months ended March 31, 2015 and 2014
(In Canadian dollars)

8. Related party transactions:

(a) The remuneration of key management personnel is as follows:

	Three months ended		Six months ended	
	March 31,		March 31,	
	2015	2014	2015	2014
Salaries and employee benefits	\$ 221,105	\$ 50,010	\$ 444,636	\$ 100,020
Share based payments	147,603	-	211,432	-
	\$ 368,708	\$ 50,010	\$ 656,068	\$ 100,020

(b) Management fees totaling \$125,310 for the three months ended March 31, 2015 (March 31, 2014 – \$61,710) and \$151,870 for the six months ended March 31, 2015 (March 31, 2014 - \$124,200) charged by a company controlled by an officer and director of the Company, were included in salaries and benefits expense. As of March 31, 2015, amounts owing to this company included in accounts payable and accrued liabilities were \$315,817 (September 30, 2014 - \$286,490).

(c) Legal and professional fees, taxes and disbursements totaling \$56,513 for the three months ended March 31, 2015 (March 31, 2014 - \$35,088) and \$80,194 for the six months ended March 31, 2015 (March 31, 2014 - \$54,852) were incurred with a law firm of which a director of the Company is a partner. As of March 31, 2015, amounts owing to this company included in accounts payable and accrued liabilities were \$148,689 (September 30, 2014 - \$425,370).

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.

9. 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, 2014	48,307,934	\$ 39,557,066
Warrants exercised	817,750	735,975
Balance as at March 31, 2015	49,125,684	\$ 40,293,041

Nanotech Security Corp.

Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited)

Three and six months ended March 31, 2015 and 2014
(In Canadian dollars)

9. Share capital (continued):

(b) Stock option plan:

Stock options outstanding as at March 31, 2015 are as follows:

	Number of options	Weighted average exercise price
Balance, September 30, 2014	1,567,000	\$ 1.38
Granted	480,000	1.15
Balance, March 31, 2015	2,047,000	\$ 1.33

The following table summarizes information pertaining to the Company's stock options outstanding at March 31, 2015:

Range of exercise prices Cdn\$	Options outstanding			Options exercisable	
	Number of options outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price	Number of options exercisable	Weighted average exercise price
\$0 - \$0.80	482,000	1.23	\$0.80	482,000	\$0.80
\$0.81 - \$1.75	1,565,000	3.84	1.48	675,000	1.55
	2,047,000	3.23	\$1.32	1,157,000	\$1.25

The weighted average assumptions used to estimate the fair value of options granted during the period ended March 31, 2015 and 2014 are as follows:

	Three months ended March 31,		Six months ended March 31,	
	2015	2014	2015	2014
Risk free interest rate	0.7%	1.0%	0.7%	1.1%
Expected life	4.4	1.8	4.4	2.3
Vesting period	1.5 years	1.5 years	1.5 years	1.5 years
Expected volatility	54%	55%	54%	59%
Expected dividends	nil	nil	nil	nil
Average fair value	\$0.49	\$0.30	\$0.49	\$0.54
Forfeiture rate	8.4%	9.0%	8.4%	9.0%

The Company charged the following share based payments to operating expenses in connection with the Company's stock option plan, with a corresponding increase in the share based payment reserve:

	Three months ended March 31,		Six months ended March 31,	
	2015	2014	2015	2014
Total compensation – stock options	\$ 196,240	\$ (14,509)	\$ 333,836	\$ 13,437

Nanotech Security Corp.

Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited)

Three and six months ended March 31, 2015 and 2014
(In Canadian dollars)

9. Share capital (continued):

(c) Restricted Share Unit Plan:

On January 27, 2015, the Company granted 423,955 Restricted Share Units ("RSUs") to employees and directors with a fair value of \$1.15 per share. 25% of the RSUs will vest on September 1, 2015, 35% will vest on September 1, 2016 and the remaining 40% will vest on September 1, 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 the share based payment reserve:

	Three months ended March 31,		Six months ended March 31,	
	2015	2014	2015	2014
Total compensation - RSUs	\$ 58,832	\$ -	\$ 58,832	\$ -

(d) Warrants:

Warrants outstanding as at March 31, 2015 are as follows:

	Number of warrants	Weighted average exercise price
Balance as at September 30, 2014	6,013,176	\$ 1.49
Exercised	(817,750)	0.90
Expired	(1,550,000)	0.90
Balance as at March 31, 2015	3,645,426	\$ 1.87

The following table summarizes information pertaining to the Company's warrants outstanding at March 31, 2015:

	Number of warrants	Exercise price	Warrant expiry date
	259,350	\$1.50	September 12, 2015
	3,386,076	1.90	September 12, 2015
	3,645,426		

10. Supplementary cash flow information:

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

	Three months ended March 31,		Six months ended March 31,	
	2015	2014	2015	2014
Accounts receivable	\$ 841	\$ (103,522)	\$ (834,053)	\$ 3,616
Inventory	(178,615)	(105,389)	(125,476)	(55,511)
Prepaid expenses and other assets	(89,708)	(25,400)	(38,436)	(51,073)
Accounts payable and accrued liabilities	(238,986)	106,048	186,009	(281,912)
Deferred revenue	(25,000)	-	(25,000)	-
	\$ (531,468)	\$ (128,263)	\$ (836,956)	\$ (384,880)

Nanotech Security Corp.

Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited)

Three and six months ended March 31, 2015 and 2014
(In Canadian dollars)

10. Supplementary cash flow information (continued):

(b) Interest and income taxes:

During the six months ended March 31, 2015, the Company paid \$65,000 interest (2014 - \$nil) and the Company did not pay any income taxes.

(c) Cash and cash equivalents:

Cash and cash equivalents are comprised of:

	March 31, 2015	September 30, 2014
Cash	\$ 680,756	\$ 1,456,148
Money market funds	3,267	8,497
Term deposit	1,400,000	2,500,000
	<u>\$ 2,084,023</u>	<u>\$ 3,964,645</u>

11. Segmented information:

Segmented information is prepared using the accounting policies described in note 17 of the Company's consolidated financial statements for the year ended September 30, 2014. The Company's business operates primarily through two business segments – Security Features and Surveillance. Security Features provides nano-optics and OTF for use in anti-counterfeiting and authentication processes and products including currency, legal documents, and commercial products. Surveillance designs and sells sophisticated surveillance and intelligence gathering equipment for the law enforcement and defense industries in the United States and Canada.

During the three months ended March 31, 2015, the Company had three customers who represented greater than 10% each of total revenues. Those customers represented approximately 29%, 18% and 16% of the total revenues and had sales from our Security Features and Surveillance segments. (2014 - no customer represents in excess of 10% of total revenue.)

During the six months ended March 31, 2015, the Company had three customers who represented greater than 10% each of total revenues. Those customers represented approximately 24%, 15% and 14% of total revenues and had sales from our Security Features segment. (2014 - no customer represents in excess of 10% of total revenue.)

March 31, 2015	Security Features	Surveillance	Total
Total current assets	\$ 3,787,530	\$ 608,252	\$ 4,395,782
Property, plant and equipment	18,726,620	52,281	18,778,901
Intangible assets	3,403,096	3,711	3,406,807
Goodwill	1,388,458	-	1,388,458
Total current liabilities	1,604,381	178,800	1,783,181
Total liabilities	<u>6,544,381</u>	<u>178,800</u>	<u>6,723,181</u>

Nanotech Security Corp.

Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited)

Three and six months ended March 31, 2015 and 2014
(In Canadian dollars)

11. Segmented information (continued):

September 30, 2014	Security Features	Surveillance	Total
Total current assets	\$ 4,669,919	\$ 608,520	\$ 5,278,439
Property, plant and equipment	18,956,599	38,722	18,995,321
Intangible assets	4,083,716	3,918	4,087,634
Goodwill	1,388,458	-	1,388,458
Total current liabilities	1,465,888	156,284	1,622,172
Total liabilities	7,565,888	156,284	7,722,172

Three months ended March 31, 2015	Security Features	Surveillance	Total
Revenue	\$ 873,414	\$ 659,828	\$ 1,533,242
Cost of sales	352,714	456,710	809,424
Gross profit	520,700	203,118	723,818
Expenses	2,040,082	223,145	2,263,227
Other expenses (income)	(503,375)	(141,512)	(644,887)
Net income (loss)	\$ (1,016,007)	\$ 121,485	\$ (894,522)

Three months ended March 31, 2014	Security Features	Surveillance	Total
Revenue	\$ 8,200	\$ 565,530	\$ 573,730
Cost of sales	192	371,783	371,975
Gross profit	8,008	193,747	201,755
Expenses	838,448	207,389	1,045,837
Other expenses	208	14,827	15,035
Net loss	\$ (830,648)	\$ (28,469)	\$ (859,117)

Six months ended March 31, 2015	Security Features	Surveillance	Total
Revenue	\$ 1,918,864	\$ 1,155,386	\$ 3,074,250
Cost of sales	1,028,323	790,759	1,819,082
Gross profit	890,541	364,627	1,255,168
Expenses	3,904,476	413,374	4,317,850
Other expenses (income)	(1,110,317)	(126,572)	(1,236,889)
Net income (loss)	\$ (1,903,618)	\$ 77,825	\$ (1,825,793)

Nanotech Security Corp.

Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited)

Three and six months ended March 31, 2015 and 2014
(In Canadian dollars)

11. Segmented information (continued):

Six months ended March 31, 2014	Security Features	Surveillance	Total
Revenue	\$ 8,718	\$ 1,122,331	\$ 1,131,049
Cost of sales	655	740,590	741,245
Gross profit	8,063	381,741	389,804
Expenses	1,545,219	381,039	1,926,258
Other expenses (income)	(1,753)	17,691	15,938
Net loss	\$ (1,535,403)	\$ (16,989)	\$ (1,552,392)

12. Nature of expenses:

Cost of sales and expenses are comprised of the following:

	Three months ended March 31,		Six months ended March 31,	
	2015	2014	2015	2014
Cost of Sales				
Direct cost of sales	734,491	368,881	1,693,221	735,219
Depreciation and amortization	74,933	3,094	125,861	6,026
	809,424	371,975	1,819,082	741,245
Research and development				
Direct expenses	659,311	216,571	1,205,697	341,781
Depreciation and amortization	340,309	340,309	680,619	680,619
Government grants	(43,362)	(67,185)	(82,362)	(122,721)
	956,258	489,695	1,803,954	899,679
General and administration				
Direct expenses	588,868	336,237	1,333,924	646,577
Depreciation and amortization	166,229	3,691	355,078	7,199
	755,097	339,928	1,689,002	653,776
Sales and marketing				
Direct expenses	551,872	216,214	824,894	372,803
	551,872	216,214	824,894	372,803
Supplementary information				
Salaries and benefits	1,054,824	517,081	2,283,803	827,418
Share based compensation	255,072	(14,509)	392,668	13,437