



June 30, 2018

Quarterly Report

Nanotech Security Corp.

Management's Discussion and Analysis

For the three and nine months ended June 30, 2018

For purposes of this management's discussion and analysis ("MD&A"), "Nanotech", the "Company", "we", or "us" refers to Nanotech Security Corp. and its subsidiaries. This quarter or the current quarter means the three months ended June 30, 2018. Year to date means the nine months ended June 30, 2018.

ADVISORY

This MD&A dated August 8, 2018, should be read in conjunction with the cautionary statement regarding forward-looking statements below and the Company's condensed consolidated interim financial statements for the three and nine months ended June 30, 2018 as well as with the Company's audited consolidated financial statements and MD&A for the year ended September 30, 2017. The results reported herein have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board and are presented in Canadian dollars. All quarterly information disclosed in this MD&A is unaudited.

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

FORWARD-LOOKING STATEMENTS

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

These forward-looking statements include, without limitation, statements about the Company's market opportunities, strategies, competition, and the Company's views that its optics-based technologies will continue to show promise for large scale production. Other forward-looking statements imply that the Company will remain capable of being financed and/or will be able to partner development until profitability is eventually realized. The principal risks related to these forward-looking statements are the loss of a key customer, that the Company's products receive market acceptance and that its intellectual property claims will be sufficiently broad or enforceable to provide the necessary protection or attract the necessary capital.

These forward-looking statements are based on the beliefs, expectations and opinions of management on the date the statements are made. Consequently, all forward-looking statements made in this discussion and analysis of the financial conditions and results of operations or the documents incorporated by reference, are qualified by this cautionary statement and there can be no certainty that actual results or developments the Company anticipates will be realized. For additional information with respect to certain of these risks or factors reference should be made to the "Business Risks and Uncertainties" section of the MD&A and the notes to the audited consolidated financial statements for the year ended September 30, 2017, as well as with the Company's continuous disclosure materials filed from time to time with Canadian securities regulatory authorities, which are available online at www.sedar.com. Nanotech disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, other than as required by law. Caution needs to be used when taking forward-looking statements into account when evaluating the Company.

Nanotech Security Corp.

Management's Discussion and Analysis

For the three and nine months ended June 30, 2018

GENERAL OVERVIEW

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

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

The Company's KolourOptik® technology employs arrays of billions of nano-indentations that are impressed or embossed onto a substrate material such as polymer, paper, metal, or fabric. By using sophisticated algorithms to direct an electron beam, the Company creates visual images with colour-shifting effects such as 3D, perceived movement, and can also display high-definition colours including skin tones, and whites and blacks, which are not possible using holographic technology.

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

On September 21, 2017, the directors of the Company made the determination that it would pursue the possible sale of its subsidiary, Tactical Technologies Inc. ("Tactical"), to a third party. At September 30, 2017, Tactical was classified as a separate disposal group held for sale and as a discontinued operation. Accordingly, the Company's comparative condensed consolidated interim statements of operations and comprehensive loss have been restated to exclude the discontinued operations for the three and nine months ended June 30, 2017. Effective June 29, 2018, the assets used in connection with Tactical's surveillance equipment and van conversion business were sold, and management expects to wind up Tactical during the fourth quarter of 2018.

Nanotech Security Corp.

Management's Discussion and Analysis
For the three and nine months ended June 30, 2018

RESULTS OF OPERATIONS

Select financial information for the three and nine months ended June 30, 2018 and 2017:

Select Financial Information	Three months ended June 30,		Nine months ended June 30,	
	2018	2017	2018	2017
Revenue	\$ 1,938,248	\$ 2,569,016	\$6,114,570	\$ 4,682,131
Cost of sales	322,500	411,143	1,384,055	1,010,456
	1,615,748	2,157,873	4,730,515	3,671,675
Expenses				
Research and development	456,241	415,514	1,194,917	1,179,313
General and administration	702,377	678,451	1,934,490	1,863,987
Sales and marketing	569,274	503,213	1,515,791	1,448,349
Depreciation and amortization	395,336	663,543	1,114,034	2,077,569
	2,123,228	2,260,721	5,759,232	6,569,218
Loss from continuing operations before other expenses	(507,480)	(102,848)	(1,028,717)	(2,897,543)
Other (income) expenses	(51,560)	645,947	(335,687)	1,082,893
Net loss from continuing operations	(455,920)	(748,795)	(693,030)	(3,980,436)
Net loss from discontinued operations	(171,542)	(156,473)	(123,322)	(473,002)
Net loss	\$ (627,462)	\$ (905,268)	\$ (816,352)	\$ (4,453,438)
Adjusted EBITDA ⁽¹⁾	\$ 100,344	\$ 857,590	\$ 692,944	\$ 34,369

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

Revenue

The Company currently derives a significant portion of its revenue from paid authentication development projects with 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 June 30, 2018 decreased by \$630,768 or 25% to \$1,938,248, compared to \$2,569,016 in the same period last year. There was a decrease in OTF deliveries in the third quarter of 2018 from our Thurso facility, which is due to the timing of a recurring OTF order that is projected for delivery in the fourth quarter of 2018 versus the third quarter of 2017. This decrease in revenue was partially offset by an increase in development contract revenue.

Revenues for the nine months ended June 30, 2018 increased by \$1,432,439 or 31% to \$6,114,570, compared to \$4,682,131 in the same period last year. Revenue growth was primarily due to an increase in paid development activity, partially offset by a reduction in OTF revenue.

Gross Margin

Gross margin for the three months ended June 30, 2018 decreased by \$542,125 or 25% to \$1,615,748, compared to \$2,157,873 in the same period last year. Overall, the gross margin percentage was 83% for the three months ended June 30, 2018, consistent with 84% in the same period last year.

Gross margin for the nine months ended June 30, 2018 increased by \$1,058,840 or 29% to \$4,730,515, compared to \$3,671,675 in the same period last year. Overall, the gross margin percentage was 77% for the nine months ended June 30, 2018, similar to 78% in the same period last year.

Nanotech Security Corp.

Management's Discussion and Analysis
For the three and nine months ended June 30, 2018

Research and Development

Research and development expenditures for the three months ended June 30, 2018 were \$456,241, an increase of \$40,727 or 10%, compared to \$415,514 in the same period last year. This increase was mainly related to the timing of OTF deliveries from our Thurso facility, as lower OTF deliveries in the current quarter allowed for more research and development activity compared to the prior year.

Research and development expenditures for the nine months ended June 30, 2018 increased by \$15,604 or 1% to \$1,194,917, which was consistent with \$1,179,313 in the same period last year.

General and Administration

General and administration expenditures for the three months ended June 30, 2018 were \$702,377, an increase of \$23,926 or 4% compared to \$678,451 in the same period last year. The increase was primarily due to salaries and other expenses associated with staff hired in the second quarter of 2018, along with increased rent and other expenditures related to the expansion of our head office.

General and administration expenditures for the nine months ended June 30, 2018 were \$1,934,490, an increase of \$70,503 or 4% compared to \$1,863,987 in the same period last year, due to additional staff hired in the second quarter of 2018, head office expansion expenditures and higher utilities costs at our Thurso operation.

Sales and Marketing

Sales and marketing expenditures for the three months ended June 30, 2018 were \$569,274, an increase of \$66,061 or 13%, compared to \$503,213 in the same period last year. This mainly relates to increased marketing expenses, such as market research, industry tradeshows and new marketing staff.

Sales and marketing expenditures for the nine months ended June 30, 2018 were \$1,515,791, an increase of \$67,442 or 5% compared with \$1,448,349 in the same period last year. This mainly relates to increased salaries, travel, marketing and investor relations expenditures in the current period.

Depreciation and Amortization

Depreciation and amortization expenditures for the three and nine months ended June 30, 2018 were \$395,336 and \$1,114,034, respectively, compared to \$663,543 and \$2,077,569 in the same periods last year, respectively. The decrease in both periods reflects the Company's declining balance depreciation policy and the intangible assets being completely amortized as at September 30, 2017.

Other (Income) Expenses

Other income for the three months ended June 30, 2018 was \$51,560, an increase of \$697,507, compared to other expenses of \$645,947 in the same period last year. The increase was primarily due to the repayment of the convertible debentures and long-term debt in 2017, which reduced interest expense by \$571,341 in the current quarter compared to the same period last year, while increased cash on hand in the current quarter resulted in a \$10,573 increase in interest income. In addition, foreign exchange gains recorded during the quarter were \$115,456 higher than in the second quarter of 2017.

Other income for the nine months ended June 30, 2018 was \$335,687, an increase of \$1,418,580, compared to other expenses of \$1,082,893 in the same period last year. The increase was primarily due to the repayment of the convertible debentures and long-term debt in 2017, which reduced interest expense by \$1,036,479 for the year to date compared to the same period last year, while increased cash on hand resulted in a \$69,710 increase in interest income for the year to date. In addition, foreign exchange gains recorded for the year to date were \$312,134 higher than in the same period last year.

Nanotech Security Corp.

Management's Discussion and Analysis
For the three and nine months ended June 30, 2018

Adjusted EBITDA

Adjusted EBITDA for the three months ended June 30, 2018 was \$100,344 compared to \$857,590 in the same period last year. The \$757,246 decrease in Adjusted EBITDA was primarily due to reduced revenue in the current quarter, in combination with increases in sales and marketing and research and development expenditures.

Adjusted EBITDA for the year to date was \$692,944 compared to \$34,369 in the same period last year. The improvement for the year to date reflects an increase in development contract revenue.

Net Loss from Discontinued Operations

Net loss from discontinued operations for the three months ended June 30, 2018 was \$171,542, consistent with a net loss of \$156,473 during the same period last year. However, the net loss from discontinued operations in the current quarter was primarily due to the disposal of assets and the reclassification adjustment of foreign exchange on disposal of the foreign operation of \$167,813, whereas the loss from discontinued operations in the same period last year was generated by business activities.

Net loss from discontinued operations for the nine months ended June 30, 2018 was \$123,322, compared to a net loss of \$473,002 during the same period last year. The decrease in net loss was primarily due to an increase in revenue associated with the delivery of surveillance vans during the year to date, which did not occur in the same period last year. In addition, there was a reduction in overall expenses for the year to date as Tactical was restructured following the Company's decision to sell the business. These reductions were offset by the loss on disposal of assets and the reclassification adjustment of foreign exchange on disposal of the foreign operation of \$167,813 in 2018.

Net Loss

Net loss for the three months ended June 30, 2018 was \$627,462, compared to \$905,268 during the same period last year. The decrease in net loss reflects lower interest expense, reduced depreciation and amortization expense and higher foreign exchange gains, partially offset by lower Adjusted EBITDA.

Net loss for the nine months ended June 30, 2018 was \$816,352, compared to \$4,453,438 during the same period last year. The decrease in net loss reflects an increase in Adjusted EBITDA in combination with lower interest expense and reduced depreciation and amortization expense.

QUARTERLY RESULTS

	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
	2018	2018	2018	2017	2017	2017	2017	2016
(\$ thousands, except per share data)								
Revenue	\$1,938	\$1,943	\$2,233	\$2,662	\$2,569	\$1,419	\$ 694	\$1,177
Net income (loss) from continuing operations	(456)	(333)	96	127	(749)	(1,559)	(1,673)	(1,566)
Net income (loss)	(627)	(285)	96	(301)	(905)	(1,695)	(1,853)	(1,677)
Adjusted EBITDA ⁽¹⁾	100	133	460	1,134	858	(268)	(556)	(444)
Basic earnings (loss) per share:								
Continuing operations	(0.01)	0.00	0.00	0.00	(0.01)	(0.03)	(0.03)	(0.03)
Net income (loss)	(0.01)	0.00	0.00	0.00	(0.02)	(0.03)	(0.03)	(0.03)
Diluted earnings (loss) per share:								
Continuing operations	(0.01)	0.00	0.00	0.00	(0.01)	(0.03)	(0.03)	(0.03)
Net income (loss)	(0.01)	0.00	0.00	0.00	(0.02)	(0.03)	(0.03)	(0.03)

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

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

Nanotech Security Corp.

Management's Discussion and Analysis
For the three and nine months ended June 30, 2018

RELATED PARTY TRANSACTIONS

For the three and nine months ended June 30, 2018 and 2017, the Company had no transactions with related parties as defined in IAS 24, *Related Party Disclosures*, except those pertaining to transactions with key management personnel in the ordinary course of their employment, or as disclosed below.

(a) Remuneration of key management personnel:

	Three months ended		Nine months ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Salaries, accrued bonuses, and employee benefits	\$ 302,238	\$ 304,788	\$ 904,578	\$ 775,710
Share-based payments	139,632	174,851	397,822	572,386
	\$ 441,870	\$ 479,639	\$ 1,302,400	\$ 1,348,096

(b) As of June 30, 2018, amounts owing to a company controlled by an officer and director of the Company included in accounts payable and accrued liabilities were \$144,531 (September 30, 2017 - \$262,854).

(c) Legal and professional fees, taxes and disbursements totaling \$13,815 for the three months ended June 30, 2018 (June 30, 2017 - \$76,189) and \$68,284 for the nine months ended June 30, 2018 (June 30, 2017 - \$137,743) were incurred with a law firm of which a director of the Company is a partner. As of June 30, 2018, amounts owing to this company included in accounts payable and accrued liabilities were \$36,402 (September 30, 2017 - \$93,219).

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

Nanotech Security Corp.

Management's Discussion and Analysis
For the three and nine months ended June 30, 2018

LIQUIDITY AND CAPITAL RESOURCES

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

Summary of Statements of Cash Flows

	Three months ended		Nine months ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Cash provided by (used in) continuing operations	\$ 686,464	\$ 837,276	\$ 1,050,286	\$ (788,891)
Cash provided by (used in) discontinued operations	(3,018)	(140,648)	94,618	(554,377)
Cash provided by (used in) operating activities	683,446	696,628	1,144,904	(1,343,268)
Cash used in investing activities	(1,490,993)	(6,837)	(2,478,900)	(97,016)
Cash provided by financing activities	-	11,116,784	-	11,339,784
Effect of foreign exchange on cash and cash equivalents	(28,140)	37,817	(98,908)	23,715
Cash and cash equivalents, beginning of period	10,286,702	1,391,514	10,883,919	3,312,691
Cash and cash equivalents, end of period	\$ 9,451,015	\$ 13,235,906	\$ 9,451,015	\$ 13,235,906

Operating Activities

Cash provided by operating activities was \$683,446 for the three months ended June 30, 2018, consistent with cash provided by operating activities of \$696,628 for the same period last year.

Cash provided by operating activities was \$1,144,904 for the nine months ended June 30, 2018, compared to cash used in operating activities of \$1,343,268 for the same period last year. This improvement was a result of increased development revenue.

Investing Activities

Cash used in investing activities was \$1,490,993 for the three months ended June 30, 2018, compared to cash used in investing activities of \$6,837 in the same period last year, reflecting payments related to a new electron beam lithography system ("EBL") installed in the second quarter of 2018.

Cash used in investing activities was \$2,478,900 for the nine months ended June 30, 2018, compared to cash used in investing activities of \$97,016 in the same period last year, reflecting purchases related to the EBL, a revenue-generating steam boiler for our Thurso facility, and a research and development embedding line.

Financing Activities

Cash provided by financing activities was \$nil for the three and nine months ended June 30, 2018, compared to \$11,116,784 and \$11,339,784 for the three and nine months ended June 30, 2017, respectively. Cash flows for the prior periods reflect proceeds of a private placement, offset by the repayment of convertible debentures. In addition, cash flows for the nine months ended June 30, 2017 included proceeds upon the exercise of stock options.

Nanotech Security Corp.

Management's Discussion and Analysis

For the three and nine months ended June 30, 2018

Capital Resources

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

The Company's officers are responsible for managing the Company's capital and do so through quarterly meetings and regular reviews of financial information. The Board of Directors is responsible for overseeing this process. In managing its capital, the Company considers changes in economic conditions, risks that impact consolidated operations, and future significant capital investment opportunities. For the nine months ended June 30, 2018, there were no changes in our approach to capital management.

As at June 30, 2018, cash and cash equivalents amounted to \$9,451,015, compared to \$10,883,919 as at September 30, 2017. The Company had no lines of credit and no exposure to asset backed commercial paper.

The Company had commitments of \$843,754 as at June 30, 2018 primarily under operating leases related to office space. Management has reviewed its projected funding requirements for the next twelve months and expects that, through the generation and collection of revenues, the Company will maintain sufficient liquidity to meet its requirements.

Non-IFRS Financial Measures

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

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

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

	Three months ended		Nine months ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Net loss	\$ (627,462)	\$ (905,268)	\$ (816,352)	\$ (4,453,438)
Finance (income) expense	(20,126)	561,925	(80,394)	1,026,052
Foreign exchange (gain) loss	(31,434)	84,022	(255,293)	56,841
Depreciation and amortization	406,021	730,022	1,186,419	2,187,249
Share-based compensation	201,803	230,416	535,242	744,663
Net loss from discontinued operations	171,542	156,473	123,322	473,002
Adjusted EBITDA	\$ 100,344	\$ 857,590	\$ 692,944	\$ 34,369

Nanotech Security Corp.

Management's Discussion and Analysis
For the three and nine months ended June 30, 2018

Financial Instruments

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

CAPITAL STRUCTURE AND OUTSTANDING SHARE DATA

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

	June 30, 2018		September 30, 2017	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Common shares outstanding	68,395,825		68,395,825	
Options				
Outstanding	2,607,500	\$ 1.35	2,040,000	\$ 1.35
Exercisable	2,156,875	\$ 1.35	1,770,125	\$ 1.37
RSUs				
Outstanding	743,532	N/A	529,560	N/A

As at August 8, 2018, the Company has 68,395,825 common shares issued and outstanding. There are no preferred shares issued and outstanding.

ADDITIONAL INFORMATION

Outlook

With a strong balance sheet, including \$9,451,015 in cash and no debt, management continues to be on track to deliver strong annual revenue growth and Adjusted EBITDA margins. A further update on the goals that management established for the 2018 fiscal year is as follows:

- Grow revenues by 20% to 40%.** Revenues have grown 31% for the year to date and are on target to be in the 25%-35% range;
- Begin to collect licensing revenue from the tax stamp and commercial markets.** We have entered into distribution agreements in India and are pursuing both tax stamp and commercial market revenue from this geographic market;
- Maintain a strong focus on earnings with a target of 15% to 20% Adjusted EBITDA margin.** Adjusted EBITDA margin of 11% for the year to date is expected to improve by year end;
- Continue to pursue a volume OTF partnering opportunity with Hueck Folien for banknotes.** Management continues to support manufacturing partner Hueck Folien in an ongoing effort to improve the quality of its production, however, we are not anticipating any volume OTF revenue with Hueck Folien this year;
- Invest in several key marketing hires to ensure internal resources are in place to develop the products, sales channels, and marketing materials necessary to penetrate commercial markets.** Joe Vosburgh joined the Company as Vice President Marketing, bringing over 20 years experience in the successful development and commercialization of breakthrough technologies. Monika Russell, who has 15 years public company experience, also joined as Vice President Finance, which will allow Troy Bullock, our President and CFO, to expand his responsibilities; and

Nanotech Security Corp.

Management's Discussion and Analysis

For the three and nine months ended June 30, 2018

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

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 nine months ended June 30, 2018 and 2017
(Unaudited)

Nanotech Security Corp.

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

Three and nine months ended June 30, 2018 and 2017

(In Canadian dollars)

	Three months ended		Nine months ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Revenue (note 9)	\$ 1,938,248	\$ 2,569,016	\$ 6,114,570	\$ 4,682,131
Cost of sales (note 10)	322,500	411,143	1,384,055	1,010,456
	1,615,748	2,157,873	4,730,515	3,671,675
Expenses (note 10)				
Research and development	456,241	415,514	1,194,917	1,179,313
General and administration	702,377	678,451	1,934,490	1,863,987
Sales and marketing	569,274	503,213	1,515,791	1,448,349
Depreciation and amortization	395,336	663,543	1,114,034	2,077,569
	2,123,228	2,260,721	5,759,232	6,569,218
Loss from continuing operations before other expenses	(507,480)	(102,848)	(1,028,717)	(2,897,543)
Other (income) expenses				
Foreign exchange (gain) loss	(31,434)	84,022	(255,293)	56,841
Finance (income) expense (note 5)	(20,126)	561,925	(80,394)	1,026,052
	(51,560)	645,947	(335,687)	1,082,893
Net loss from continuing operations	(455,920)	(748,795)	(693,030)	(3,980,436)
Net loss from discontinued operations (note 11(c))	(171,542)	(156,473)	(123,322)	(473,002)
Net loss	(627,462)	(905,268)	(816,352)	(4,453,438)
Other comprehensive loss:				
Items that may be subsequently reclassified to earnings:				
Unrealized foreign exchange gain (loss)				
on translation of foreign operation (note 11(c))	(28,140)	37,817	(98,908)	23,715
Total comprehensive loss	\$ (655,602)	\$ (867,451)	\$ (915,260)	\$ (4,429,723)
Basic and diluted earnings (loss) per share:				
Continuing operations	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.07)
Discontinued operations	\$ 0.00	\$ (0.01)	\$ 0.00	\$ (0.01)
Net loss	\$ (0.01)	\$ (0.02)	\$ (0.01)	\$ (0.08)
Weighted average number of common shares				
Basic and diluted	68,395,825	60,027,320	68,395,825	56,006,062

See accompanying notes to the condensed consolidated interim financial statements.

Nanotech Security Corp.

Condensed Consolidated Interim Statements of Financial Position
(Unaudited)

(In Canadian dollars)

	June 30, 2018	September 30, 2017
Assets		
Current assets:		
Cash and cash equivalents	\$ 9,451,015	\$ 10,883,919
Accounts receivable	943,014	1,374,442
Inventory (note 4)	203,648	151,708
Prepaid expenses and other assets	158,251	187,874
Assets held for sale (note 11(a))	-	216,225
	<u>10,755,928</u>	<u>12,814,168</u>
Property, plant and equipment	17,357,043	15,856,998
Goodwill	1,388,458	1,388,458
	<u>\$ 29,501,429</u>	<u>\$ 30,059,624</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 1,429,423	\$ 1,431,466
Deferred revenue	-	157,171
Liabilities directly associated with assets held for sale (note 11(a))	34,128	200,226
	<u>1,463,551</u>	<u>1,788,863</u>
Non-current liabilities:		
Tenant inducement	50,545	71,223
	<u>1,514,096</u>	<u>1,860,086</u>
Shareholders' equity		
Share capital (note 6(a))	61,426,483	61,426,483
Contributed surplus	3,250,379	2,715,137
Deficit	(36,689,529)	(35,873,177)
Accumulated other comprehensive loss	-	(68,905)
	<u>27,987,333</u>	<u>28,199,538</u>
	<u>\$ 29,501,429</u>	<u>\$ 30,059,624</u>

Related party transactions (note 7)

Commitments (note 12)

See accompanying notes to the condensed consolidated interim financial statements.

Approved on behalf of the Board of Directors:

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

Nanotech Security Corp.

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

Nine months ended June 30, 2018 and 2017
(In Canadian dollars)

	Number of shares	Share capital	Contributed surplus	Deficit	Accumulated other comprehensive loss	Total shareholders' equity
Balance as at October 1, 2016	53,864,285	\$ 45,210,507	\$ 2,485,131	\$ (31,119,045)	\$ (154,510)	\$ 16,422,083
Net loss	-	-	-	(4,453,438)	-	(4,453,438)
Unrealized foreign exchange gain on translation	-	-	-	-	23,715	23,715
Private placement	11,586,870	12,486,784	-	-	-	12,486,784
Shares issued on conversion of convertible debentures	2,252,000	2,815,000	-	-	-	2,815,000
Share-based compensation (note 6(b) and (c))	-	-	744,663	-	-	744,663
Options exercised	272,000	346,287	(123,287)	-	-	223,000
Balance as at June 30, 2017	67,975,155	\$ 60,858,578	\$ 3,106,507	\$ (35,572,483)	\$ (130,795)	\$ 28,261,807
Balance as at October 1, 2017	68,395,825	\$ 61,426,483	\$ 2,715,137	\$ (35,873,177)	\$ (68,905)	\$ 28,199,538
Net loss	-	-	-	(816,352)	-	(816,352)
Unrealized foreign exchange loss on translation	-	-	-	-	(98,908)	(98,908)
Share-based compensation (note 6(b) and (c))	-	-	535,242	-	-	535,242
Foreign exchange reclassified upon disposal of foreign operation (note 11(c))	-	-	-	-	167,813	167,813
Balance as at June 30, 2018	68,395,825	\$ 61,426,483	\$ 3,250,379	\$ (36,689,529)	\$ -	\$ 27,987,333

See accompanying notes to the condensed consolidated interim financial statements.

Nanotech Security Corp.

Condensed Consolidated Interim Statements of Cash Flows
(Unaudited)

Three and nine months ended June 30, 2018 and 2017
(In Canadian dollars)

	Three months ended		Nine months ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Cash flows provided by (used in):				
Operating activities:				
Net loss from continuing operations	\$ (455,920)	\$ (748,795)	\$ (693,030)	\$ (3,980,436)
Items not involving cash:				
Depreciation and amortization	406,021	730,022	1,186,419	2,187,249
Share-based compensation	201,803	230,416	535,242	744,663
Accretion of convertible debentures	-	435,271	-	589,858
Other	(6,893)	(6,893)	(20,678)	(20,678)
Non-cash working capital changes (note 8(a))	541,453	197,255	42,333	(309,547)
	686,464	837,276	1,050,286	(788,891)
Net cash provided by (used in) discontinued operations (note 11(b))	(3,018)	(140,648)	94,618	(554,377)
Cash provided by (used in) operating activities	683,446	696,628	1,144,904	(1,343,268)
Investing activities:				
Purchase of property and equipment (note 8(d))	(1,490,993)	(6,837)	(2,478,900)	(97,016)
Cash used in investing activities	(1,490,993)	(6,837)	(2,478,900)	(97,016)
Financing activities:				
Issuance of shares for options exercised	-	-	-	223,000
Proceeds on financing, net of costs	-	12,486,784	-	12,486,784
Repayment of convertible debentures	-	(1,370,000)	-	(1,370,000)
Cash provided by financing activities	-	11,116,784	-	11,339,784
Effect of foreign exchange on cash and cash equivalents	(28,140)	37,817	(98,908)	23,715
Increase (decrease) in cash and cash equivalents	(835,687)	11,844,392	(1,432,904)	9,923,215
Cash and cash equivalents, beginning of period	10,286,702	1,391,514	10,883,919	3,312,691
Cash and cash equivalents, end of period	\$ 9,451,015	\$ 13,235,906	\$ 9,451,015	\$ 13,235,906

See supplementary cash flow information (note 8)

See accompanying notes to the condensed consolidated interim financial statements.

Nanotech Security Corp.

Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited)

Three and nine months ended June 30, 2018 and 2017
(In Canadian dollars)

1. Summary of business:

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

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

2. Basis of preparation:

(a) *Statement of compliance:*

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

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

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

These condensed consolidated interim financial statements were approved and authorized for issue by the Company’s Board of Directors on August 8, 2018.

(b) *Basis of measurement:*

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

3. New standards and interpretations not yet adopted:

(a) *IFRS 9 – Financial Instruments:*

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

Nanotech Security Corp.

Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited)

Three and nine months ended June 30, 2018 and 2017
(In Canadian dollars)

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

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

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

(c) *IFRS 16 – Leases:*

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

4. Inventory:

	June 30, 2018	September 30, 2017
Raw materials	\$ 147,036	\$ 123,619
Work in progress	52,849	28,089
Finished goods	3,763	-
	<u>\$ 203,648</u>	<u>\$ 151,708</u>

There were no inventory write-downs during the three and nine months ended June 30, 2018 and June 30, 2017.

For the three months ended June 30, 2018, the Company recognized inventories of \$322,500 (June 30, 2017 - \$411,143) as expensed through cost of sales. For the nine months ended June 30, 2018, the Company recognized inventories of \$1,384,055 (June 30, 2017 - \$1,010,456) as expensed through cost of sales.

Nanotech Security Corp.

Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited)

Three and nine months ended June 30, 2018 and 2017
(In Canadian dollars)

5. Convertible debentures:

On June 9, 2016, the Company completed an initial tranche of a non-brokered private placement of unsecured subordinated convertible debentures in the amount of \$2,505,000, with a second and final tranche closing on June 21, 2016 in the amount of \$1,680,000 for total gross proceeds of \$4,185,000, which were payable upon maturity on May 31, 2018.

The convertible debentures accrued interest at a rate of 12% per annum payable quarterly in arrears and were convertible into common shares of the Company at a price of \$1.25 per share. The Company had the option to pre-pay the principal sum, in whole or in part, twelve months following the closing, after providing twenty business days notice to the holder.

On May 18, 2017, the Company provided notice to the debenture holders of the Company's intention to repay the convertible debentures on June 21, 2017. On May 18, 2017, the Company recorded accretion expense to bring the carrying value of the debentures to face value of \$4,185,000.

Several debenture holders elected to convert their debentures into common shares at \$1.25 per share. As a result the Company issued 2,252,000 common shares valued at \$2,815,000. The remaining \$1,370,000 was repaid.

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

	Three months ended June 30,		Nine months ended June 30,	
	2018	2017	2018	2017
Interest	\$ -	\$ 105,557	\$ -	\$ 355,969
Accretion of convertible debentures	-	435,271	-	589,858
Interest expense	\$ -	\$ 540,828	\$ -	\$ 945,827

Nanotech Security Corp.

Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited)

Three and nine months ended June 30, 2018 and 2017
(In Canadian dollars)

6. Share capital:

(a) Share capital:

Authorized:

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

Common shares issued and fully paid:

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

There are no preferred shares issued and outstanding.

(b) Stock option plan:

Stock options outstanding as at June 30, 2018:

	Number of options	Weighted average exercise price
Balance as at September 30, 2017	2,040,000	\$ 1.35
Granted	567,500	1.35
Balance as at June 30, 2018	2,607,500	\$ 1.35

The following table summarizes information pertaining to the Company's stock options outstanding as at June 30, 2018:

Range of exercise prices	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
\$1.01 - \$1.25	1,126,500	2.74	\$ 1.14	989,000	\$ 1.12
\$1.26 - \$1.65	1,481,000	2.48	1.52	1,167,875	1.55
	2,607,500	2.59	\$ 1.35	2,156,875	\$ 1.35

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

Nanotech Security Corp.

Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited)

Three and nine months ended June 30, 2018 and 2017
(In Canadian dollars)

6. Share capital (continued):

(b) Stock option plan (continued):

The weighted average assumptions used to estimate the fair value of options granted during the three and nine month periods ended June 30, 2018 and 2017:

	Three months ended June 30,		Nine months ended June 30,	
	2018	2017	2018	2017
Risk free interest rate	1.97%	N/A	1.92%	1.21%
Expected life	5.0 years	N/A	4.5 years	4.4 years
Vesting period	2.0 years	N/A	1.6 years	1.5 years
Expected volatility	43%	N/A	43%	46%
Expected dividends	Nil	N/A	Nil	Nil
Average fair value	\$0.48	N/A	\$0.52	\$0.58
Forfeiture rate	9.5%	N/A	10.2%	11.4%

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

	Three months ended June 30,		Nine months ended June 30,	
	2018	2017	2018	2017
Stock option compensation	\$ 74,874	\$ 58,601	\$ 224,231	\$ 333,699

(c) Restricted share unit ("RSU") plan:

RSUs outstanding as at June 30, 2018:

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

Using an estimated forfeiture rate of 10% for the three and nine months ended June 30, 2018 and June 30, 2017, the Company charged the following share-based payments to operating expenses in connection with the Company's RSU plan, with a corresponding increase in contributed surplus:

	Three months ended June 30,		Nine months ended June 30,	
	2018	2017	2018	2017
RSU compensation	\$ 126,929	\$ 171,815	\$ 311,011	\$ 410,964

Nanotech Security Corp.

Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited)

Three and nine months ended June 30, 2018 and 2017
(In Canadian dollars)

7. Related party transactions:

(a) Remuneration of key management personnel:

	Three months ended June 30,		Nine months ended June 30,	
	2018	2017	2018	2017
Salaries, accrued bonuses, and employee benefits	\$ 302,238	\$ 304,788	\$ 904,578	\$ 775,710
Share-based payments	139,632	174,851	397,822	572,386
	\$ 441,870	\$ 479,639	\$ 1,302,400	\$ 1,348,096

(b) As of June 30, 2018, amounts owing to a company controlled by an officer and director of the Company included in accounts payable and accrued liabilities were \$144,531 (September 30, 2017 - \$262,854).

(c) Legal and professional fees, taxes and disbursements totaling \$13,815 for the three months ended June 30, 2018 (June 30, 2017 - \$76,189) and \$68,284 for the nine months ended June 30, 2018 (June 30, 2017 - \$137,743) were incurred with a law firm of which a director of the Company is a partner. As of June 30, 2018, amounts owing to this company included in accounts payable and accrued liabilities were \$36,402 (September 30, 2017 - \$93,219).

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

8. Supplementary cash flow information:

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

	Three months ended June 30,		Nine months ended June 30,	
	2018	2017	2018	2017
Accounts receivable	\$ 916,000	\$ 120,614	\$ 431,428	\$ (833,044)
Inventory	(56,586)	31,430	(53,540)	10,534
Prepaid expenses and other assets	(66,349)	(35,162)	29,623	(17,376)
Accounts payable and accrued liabilities (note 8(d))	100,417	80,373	(208,007)	530,339
Deferred revenue	(352,029)	-	(157,171)	-
	\$ 541,453	\$ 197,255	\$ 42,333	\$ (309,547)

(b) *Interest and income taxes:*

	Three months ended June 30,		Nine months ended June 30,	
	2018	2017	2018	2017
Interest received	\$ 25,328	\$ 11,826	\$ 90,964	\$ 12,736
Interest paid	2,905	135,557	2,905	445,969

The Company did not pay any income taxes during the three and nine months ended June 30, 2018 and June 30, 2017.

Nanotech Security Corp.

Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited)

Three and nine months ended June 30, 2018 and 2017
(In Canadian dollars)

8. Supplementary cash flow information (continued):

(c) Cash and cash equivalents:

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

	June 30, 2018	September 30, 2017
Cash	\$ 763,236	\$ 914,378
Cash equivalents	8,687,779	9,969,541
	\$ 9,451,015	\$ 10,883,919

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

As at June 30, 2018, property, plant and equipment included in accounts payable was \$205,964 (June 30, 2017 - \$nil).

9. Revenue:

During the three months ended June 30, 2018, the Company had one customer who represented greater than 10% of total revenues. The customer represented approximately 91% of total revenues (June 30, 2017 - two customers represented approximately 55% and 31% of total revenues respectively).

During the nine months ended June 30, 2018, the Company had one customer who represented greater than 10% of total revenues. The customer represented approximately 85% of total revenues (June 30, 2017 - two customers represented approximately 63% and 16% of total revenues respectively).

10. Nature of expenses:

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

	Three months ended June 30,		Nine months ended June 30,	
	2018	2017	2018	2017
Salaries and benefits	\$ 893,696	\$ 907,031	\$ 2,509,167	\$ 2,454,542
Share-based compensation	201,803	230,416	535,242	744,663
Depreciation and amortization	406,021	730,022	1,186,419	2,187,249
Travel and entertainment	80,828	83,577	246,783	200,433
Professional fees and insurance	226,394	163,966	669,206	525,217
Public company costs	164,994	154,681	455,582	487,013
Rent and utilities	168,894	230,522	499,090	467,915
Maintenance and office expenses	72,186	66,720	182,560	260,858
Materials consumed	230,912	104,929	859,238	251,784
	\$ 2,445,728	\$ 2,671,864	\$ 7,143,287	\$ 7,579,674

Nanotech Security Corp.

Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited)

Three and nine months ended June 30, 2018 and 2017
(In Canadian dollars)

11. Discontinued operations:

On September 21, 2017, the directors of the Company made the determination that it would pursue the possible sale of the assets of its subsidiary, Tactical Technologies Inc. ("Tactical"), to a third party. At September 30, 2017, Tactical was classified as a separate disposal group held for sale and as a discontinued operation.

Effective June 29, 2018, the assets used in connection with Tactical's surveillance equipment and van conversion business were sold for a nominal amount.

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

	June 30, 2018	September 30, 2017
Cash	\$ -	\$ 30,280
Accounts receivable	-	116,538
Inventory	-	54,525
Prepaid expenses	-	12,401
Property, plant and equipment	-	2,481
Assets held for sale	\$ -	\$ 216,225
Accounts payable and accrued liabilities	\$ 34,128	\$ 200,226
Liabilities directly associated with assets held for sale	\$ 34,128	\$ 200,226
Cumulative loss in accumulated other comprehensive loss	\$ -	\$ (68,905)

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

	Three months ended June 30,		Nine months ended June 30,	
	2018	2017	2018	2017
Net loss from discontinued operations	\$ (171,542)	\$ (156,473)	\$ (123,322)	\$ (473,002)
Depreciation	-	3,223	-	9,590
Foreign exchange reclassified upon disposal of foreign operation	167,813	-	167,813	-
Non-cash working capital changes	711	12,602	50,127	(90,965)
	\$ (3,018)	\$ (140,648)	\$ 94,618	\$ (554,377)

Nanotech Security Corp.

Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited)

Three and nine months ended June 30, 2018 and 2017
(In Canadian dollars)

11. Discontinued operations (continued):

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

	Three months ended June 30,		Nine months ended June 30,	
	2018	2017	2018	2017
Revenue	\$ 212,962	\$ 337,633	\$ 827,256	\$ 895,131
Cost of sales	145,487	238,964	454,573	628,176
	67,475	98,669	372,683	266,955
Expenses				
Research and development	-	67,997	-	209,859
General and administration	63,270	112,310	311,217	343,270
Sales and marketing	8,744	70,117	14,994	175,790
Depreciation	-	3,223	-	9,590
	72,014	253,647	326,211	738,509
Income (loss) before other expenses	(4,539)	(154,978)	46,472	(471,554)
Other expenses	628	1,495	3,419	1,448
Gain on disposal of foreign operation	(1,438)	-	(1,438)	-
Foreign exchange reclassified on disposal of foreign operation	167,813	-	167,813	-
Net loss from discontinued operations	\$ (171,542)	\$ (156,473)	\$ (123,322)	\$ (473,002)
Other comprehensive loss:				
Unrealized foreign exchange gain (loss) on translation of foreign operation	(28,140)	37,817	(98,908)	23,715
Total comprehensive loss from discontinued operations	\$ (199,682)	\$ (118,656)	\$ (222,230)	\$ (449,287)

12. Commitments:

As at June 30, 2018, the Company is committed, primarily under operating leases related to office space, for the following amounts:

2018	\$ 72,080
2019	302,499
2020	217,966
2021	96,196
2022	90,277
2023	64,736
	\$ 843,754