June 30, 2019

Quarterly Report

For purposes of this management's discussion and analysis ("MD&A"), "Nanotech", the "Company", "we", or "us" refers to Nanotech Security Corp. and its subsidiaries. This quarter or the current quarter means the three months ended June 30, 2019. Year to date means the nine months ended June 30, 2019.

ADVISORY

This MD&A, dated August 7, 2019, should be read in conjunction with the cautionary statement regarding forward-looking statements below and the Company's condensed consolidated interim financial statements for the three and nine months ended June 30, 2019 as well as with the Company's consolidated financial statements and MD&A for the year ended September 30, 2018. The results reported herein have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and are presented in Canadian dollars. All quarterly information disclosed in this MD&A is unaudited.

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

FORWARD-LOOKING STATEMENTS

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

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

These forward-looking statements are based on the beliefs, expectations and opinions of management on the date the statements are made. Consequently, all forward-looking statements made in this discussion and analysis of the financial conditions and results of operations or the documents incorporated by reference, are qualified by this cautionary statement and there can be no certainty that actual results or developments the Company anticipates will be realized. For additional information with respect to certain of these risks or factors reference should be made to the "Business Risks and Uncertainties" section of the MD&A and the notes to the audited consolidated financial statements for the year ended September 30, 2018, as well as with the Company's continuous disclosure materials filed from time to time with Canadian securities regulatory authorities, which are available online at www.sedar.com. Nanotech disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, other than as required by law. Caution needs to be used when taking forward-looking statements into account when evaluating the Company.

GENERAL OVERVIEW

Nanotech is incorporated under the laws of British Columbia with common shares listed on the TSX Venture Exchange (trading symbol: NTS) and quoted in the United States on the OTCQX Market (trading symbol: NTSFF). The Company's head office is located at #505 - 3292 Production Way, Burnaby, BC, Canada V5A 4R4. The Company's registered and records office is #1200 - 200 Burrard Street, Vancouver, BC, Canada V7X 1T2.

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

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

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

On September 21, 2017, the directors of the Company made the determination to pursue the possible sale of its subsidiary, Tactical Technologies Inc. ("Tactical"), to a third party. At September 30, 2017, Tactical was classified as a separate disposal group held for sale and as a discontinued operation. On June 29, 2018, the assets used in connection with Tactical's surveillance equipment and van conversion business were sold to an employee of Tactical for a nominal amount, and on September 28, 2018, Tactical was wound up and struck from the corporate register.

RESULTS OF OPERATIONS

Select financial information for the three and nine months ended June 30, 2019 and 2018:

Select Financial Information	Three months ended June 30		Nine months ended June 30	
	2019	2018(1)	2019	2018(1)
Revenue	$ 1,891,014	$ 1,874,878	$ 5,530,772	$ 5,913,897
Cost of sales	522,863	318,790	1,619,984	1,364,330
	1,368,151	1,556,088	3,910,788	4,549,567
Expenses				
Research and development	416,722	456,241	1,155,372	1,194,917
General and administration	613,740	702,377	1,738,490	1,934,490
Sales and marketing	563,373	569,274	1,536,917	1,515,791
Depreciation and amortization	370,977	395,336	1,127,271	1,114,034
Restructuring costs	-	-	815,700	-
	1,964,812	2,123,228	6,373,750	5,759,232
Loss from continuing operations before other income	(596,661)	(567,140)	(2,462,962)	(1,209,665)
Other income	(75,171)	(111,220)	(332,556)	(516,635)
Net loss from continuing operations	(521,490)	(455,920)	(2,130,406)	(693,030)
Net loss from discontinued operations	-	(171,542)	-	(123,322)
Net loss	$ (521,490)	$ (627,462)	$ (2,130,406)	$ (816,352)
Adjusted EBITDA(2)	$ 17,365	$ 100,344	$ 180,023	$ 692,944

(1)Results for the three and nine months ended June 30, 2018 have been adjusted to reflect the full retrospective application of IFRS 15, which was adopted October 1, 2018. For further information, see note 3(b) of the condensed consolidated interim financial statements for the three and nine months ended June 30, 2019.

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

Revenue

The Company currently derives the majority of its revenue from contract services with a G10 issuing authority. 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 contract services incorporate both nano-optic and OTF technologies and are focused on developing authentication features for future banknotes. There is inherent variability in the timing and scope of contract services, particularly as the Company transitions from the development of security features toward production of a final selected security feature. While the Company is progressing toward the goal of incorporating a Nanotech security feature on this customer's banknote, advancement towards this goal corresponds with the customer narrowing the scope of development activities with an intention to select a final security feature. Although focusing on one security feature is a positive development, revenues from this customer are variable and there was a decline in the three and nine month periods ended June 30, 2019 compared to the same periods last year.

Revenues for the three months ended June 30, 2019 increased by $16,136 or 1% to $1,891,014, compared to $1,874,878 in the same period last year, due to increased revenue from products in the current period, partially offset by lower contract services and steam revenue.

Revenues for the nine months ended June 30, 2019 decreased by $383,125 or 6% to $5,530,772, compared to $5,913,897 in the same period last year primarily due to reduced contract services revenue in the current period, partially offset by increased revenue from products.

Gross Margin

Gross margin for the three months ended June 30, 2019 decreased by $187,937 or 12% to $1,368,151, compared to $1,556,088 in the same period last year. The gross margin percentage was 72% for the three months ended June 30, 2019, down from 83% in the same period last year. This decrease was primarily due to changes in the revenue mix, with an increase in lower margin product revenue in the current quarter.

Gross margin for the nine months ended June 30, 2019 decreased by $638,779 or 14% to $3,910,788, compared to $4,549,567 in the same period last year. The gross margin percentage was 71% for the nine months ended June 30, 2019, down from 77% in the same period last year primarily due to the decrease in higher margin contract services revenue in the current period.

Research and Development

Research and development expenditures for the three months ended June 30, 2019 were $416,722 a decrease of $39,519 or 9%, compared to $456,241 in the same period last year. This decrease was primarily due to decreased in-house research and development work, partially offset by equipment maintenance costs.

Research and development expenditures for the nine months ended June 30, 2019 were $1,155,372, a decrease of $39,545 or 3%, compared with $1,194,917 in the same period last year. This decrease was primarily due to the timing of patent filings which reduced patent expenses in the current period, partially offset by the write-down of inventory in the current period.

General and Administration

General and administration expenditures for the three months ended June 30, 2019 were $613,740, a decrease of $88,637 or 13% compared with $702,377 in the same period last year. The decrease was primarily due to the transition of the Company's former CFO to CEO and the resulting allocation of compensation to sales and marketing in the current period.

General and administration expenditures for the nine months ended June 30, 2019 were $1,738,490, a decrease of $196,000 or 10%, compared to $1,934,490 in the same period last year. The decrease was primarily due to the executive transition in 2019, partially offset by an increase in professional fees and rent expense in the current period.

Sales and Marketing

Sales and marketing expenditures for the three months ended June 30, 2019 were $563,373, consistent with $569,274 in the same period last year.

Sales and marketing expenditures for the nine months ended June 30, 2019 were $1,536,917, an increase of $21,126 or 1%, compared with $1,515,791 in the same period last year. The increase was related to salary expenses as headcount was higher in the current period, partially offset by reduced investor relations and travel expenses in the current period.

Depreciation and Amortization

Depreciation and amortization expenditures for the three months ended June 30, 2019 were $370,977, compared to $395,336 in the same period last year which reflects the Company's declining balance depreciation method.

Depreciation and amortization expenditures for the nine months ended June 30, 2019 were $1,127,271, compared to $1,114,034 in the same period last year which reflects a larger proportion of depreciation allocated to cost of sales in the previous year due to increased sales.

Restructuring Costs

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

In January 2019, $725,000 was paid to Mr. Blakeway and 187,500 shares were issued to Mr. Blakeway upon vesting of his RSUs.

Other Income

Other income for the three months ended June 30, 2019 was $75,171, a decrease of $36,049 compared to other income of $111,220 in the same period last year. The decrease was primarily due to a foreign exchange loss in the current period compared to a foreign exchange gain in the prior period, which was the result of higher fluctuations in foreign exchange rates in the same period last year. This decrease in other income was partially offset by increased finance income due to higher interest rates in the current period.

Other income for the nine months ended June 30, 2019 was $332,556, a decrease of $184,079 compared to other income $516,635 in the same period last year. The decrease was primarily due to a reduced foreign exchange gain in the current period as a result of higher fluctuations in foreign exchange in the prior year. This decrease in other income was partially offset by increased finance income due to higher interest rates in the current year.

Adjusted EBITDA

Adjusted EBITDA for the three months ended June 30, 2019 was $17,365, compared to $100,344 in the same period last year. The decrease was primarily due to reduced margins in the current period.

Adjusted EBITDA for the nine months ended June 30, 2019 was $180,023, compared to $692,944 in the same period last year. The decrease was primarily due to reduced revenue and margins in the current year.

Net Income (Loss)

Net loss for the three months ended June 30, 2019 was $521,490, compared to net loss of $627,462 during the same period last year. The decrease in net loss was primarily due to the loss from discontinued operations recorded in the prior period.

Net loss for the nine months ended June 30, 2019 was $2,130,406, compared to net loss of $816,352 in the same period last year. The increase in net loss was primarily due to restructuring costs related to the executive transition in the current period in combination with decreased revenue.

QUARTERLY RESULTS

	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017
($ thousands, except per share data)								
Revenue[(1)]	$1,891	$1,916	$1,724	$3,028	$1,875	$1,863	$2,176	$2,605
Net income (loss) from continuing operations	(521)	(477)	(1,132)	770	(456)	(333)	96	127
Net income (loss)	(521)	(477)	(1,132)	770	(627)	(285)	96	(301)
Adjusted EBITDA[(2)]	17	45	118	1,306	100	133	460	1,134
Basic earnings (loss) per share:								
Continuing operations	(0.01)	(0.01)	(0.02)	0.01	(0.01)	0.00	0.00	0.00
Net income (loss)	(0.01)	(0.01)	(0.02)	0.01	(0.01)	0.00	0.00	0.00
Diluted earnings (loss) per share:								
Continuing operations	(0.01)	(0.01)	(0.02)	0.01	(0.01)	0.00	0.00	0.00
Net income (loss)	(0.01)	(0.01)	(0.02)	0.01	(0.01)	0.00	0.00	0.00

[(1)]Results for 2018 and 2017 have been adjusted to reflect the full retrospective application of IFRS 15, which was adopted October 1, 2018. For further information, see note 3(b) of the condensed consolidated interim financial statements for the three and nine months ended June 30, 2019.

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

Revenue and Adjusted EBITDA were impacted by the timing and scope of contract services and the timing of recurring OTF orders in the quarters presented. There is an inherent variability in 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 restructuring costs in the first quarter of 2019 and the repayment of long-term debt in the fourth quarter of 2017, which reduced interest expense. There are no seasonal effects in the Company's business over the quarters presented.

RELATED PARTY TRANSACTIONS

For the three and nine months ended June 30, 2019 and 2018, 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 June 30		Nine months ended June 30	
	2019	2018	2019	2018
Salaries, accrued bonuses, and employee benefits	$ 150,344	$ 302,238	$ 456,276	$ 904,578
Share-based payments	60,343	139,632	222,935	397,822
Restructuring costs	-	-	815,700	-
	$ 210,687	$ 441,870	$ 1,494,911	$ 1,302,400

(b) As at June 30, 2019, amounts owing to a company controlled by a director of the Company included in accounts payable and accrued liabilities were $120,321 (September 30, 2018 - $191,433). These payables represent amounts owing under the terms of an executive services consulting agreement, including payments owing upon the early termination of this agreement.

(c) Legal and professional fees, taxes and disbursements totaling $4,658 for the three months ended June 30, 2019 (June 30, 2018 - $13,815) and $40,912 for the nine months ended June 30, 2019 (June 30, 2018 - $68,284) were incurred with a law firm of which a director of the Company is a partner. As of June 30, 2019, amounts owing to this law firm included in accounts payable and accrued liabilities were $49,501 (September 30, 2018 - $50,780). During the quarter ended June 30, 2019, the Company retained new legal counsel and moved its registered and records office.

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

LIQUIDITY AND CAPITAL RESOURCES

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

Summary of Statements of Cash Flows

	Three months ended June 30		Nine months ended June 30	
	2019	2018	2019	2018
Cash provided by (used in) continuing operations	$ (370,426)	$ 686,464	$ 128,313	$ 1,050,286
Cash provided by (used in) discontinued operations	(434)	(3,018)	(5,411)	94,618
Cash provided by (used in) operating activities	(370,860)	683,446	122,902	1,144,904
Cash provided by (used in) investing activities	31,641	(1,490,993)	(26,510)	(2,478,900)
Effect of foreign exchange on cash and cash equivalents	467	(28,140)	467	(98,908)
Cash and cash equivalents, beginning of period	2,450,375	10,286,702	2,014,764	10,883,919
Cash and cash equivalents, end of period	$ 2,111,623	$ 9,451,015	$ 2,111,623	$ 9,451,015

Operating Activities

Cash used in operating activities was $370,860 for the three months ended June 30, 2019, compared to cash provided by operating activities of $683,446 for the same period last year. The increase in cash used in operating activities was primarily due to changes in non-cash working capital, in combination with an increase in net loss from continuing operations. Cash used in non-cash working capital increased from the prior year due to the timing of accounts receivable collections and accounts payable, as well as an increase in prepaid expenses related to an equipment maintenance contract in the current period.

Cash provided by operating activities was $122,902 for the nine months ended June 30, 2019, compared to cash provided by operating activities of $1,144,904 for the same period last year. The difference was a result of increased net loss during the current period, offset by a decrease in accounts receivable in the current period.

Investing Activities

Cash provided by investing activities for the three months ended June 30, 2019 was $31,641, compared to cash used in investing activities of $1,490,993 for the same period last year. The current period represents the net disposal of short-term investments offset by investment in minor capital projects, whereas the prior period reflects payments related to a new electron beam lithography system installed in the second quarter of 2018.

Cash used in investing activities for the nine months ended June 30, 2019 was $26,510, compared to cash used in investing activities of $2,478,900 in the same period last year. The current period represents investment in minor capital projects and the net disposal of short-term investments, whereas the prior period reflects the purchase of an electron beam lithography system, a revenue-generating steam boiler, and an embossing line.

Capital Resources

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

The Company's officers are responsible for managing the Company's capital and do so through quarterly meetings and regular review of financial information. The Board of Directors is responsible for overseeing this process. In managing its capital, the Company considers changes in economic conditions, risks that impact operations, and future significant capital investment opportunities. For the three and nine months ended June 30, 2019, there were no changes in our approach to capital management.

	June 30, 2019	September 30, 2018
Cash	$ 622,339	$ 292,688
Cash equivalents	1,489,284	1,722,076
Short-term investments	7,499,994	7,598,857
	$ 9,611,617	$ 9,613,621

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

The Company had commitments of $1,111,042 as at June 30, 2019, primarily under operating leases related to office space and contracted equipment maintenance. Management has reviewed its projected funding requirements for the next twelve months and expects that, through the generation and collection of revenues, the Company will maintain sufficient liquidity to meet its requirements.

Non-IFRS Financial Measures

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

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

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

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

Financial Instruments

The Company considers the management of financial risk to be an important part of its overall corporate risk management policy. The nature and extent of risks arising from financial instruments and their related risk management are described in note 12 of the consolidated financial statements for the year ended September 30, 2018. In the three and nine months ended June 30, 2019, 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 an 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, 2019		September 30, 2018	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Common shares outstanding	68,959,001		68,771,501	
Options				
Outstanding	3,985,000	$ 1.02	2,607,500	$ 1.35
Exercisable	2,921,875	$ 1.13	2,273,750	$ 1.35
RSUs				
Outstanding	466,626	N/A	370,606	N/A

As at August 7, 2019, the Company has 68,959,001 common shares issued and outstanding. There are no preferred shares issued and outstanding.

SIGNIFICANT ACCOUNTING POLICIES

(a) *IFRS 9 – Financial Instruments*

In July 2014, the IASB issued IFRS 9 – *Financial Instruments*, which replaces earlier versions of IFRS 9 (2009, 2010 and 2013) and completes the IASB's project to replace IAS 39 – *Financial Instruments: Recognition and Measurement*. IFRS 9 includes a logical model for classification and measurement of financial assets and a single, forward-looking 'expected credit loss' impairment model.

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

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

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

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

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

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

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

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

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

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

In May 2014, the IASB issued IFRS 15 – *Revenue from Contracts with Customers*, which supersedes IAS 18 – *Revenue*, IAS 11 – *Construction Contracts* and other interpretive guidance associated with revenue recognition. IFRS 15 provides a single, principles-based five-step model to be applied to all contracts with customers to determine how and when an entity should recognize revenue. The standard also provides guidance on whether revenue should be recognized at a point in time or over time as well as requirements for more informative, relevant disclosures.

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

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

For the three and nine months ended June 30, 2018, revenue was previously reported as $1,938,248 and $6,114,570 respectively and restated as $1,874,878 and $5,913,897 respectively, due to a reclass of $63,370 and $200,673 respectively to tenant income. Cost of sales for the three and nine months ended June 30, 2018 was previously reported as $322,500 and $1,384,055 respectively and restated as $318,790 and $1,364,330 respectively, due to a reclass of $3,710 and $19,725 respectively to tenant income. There was no impact on net loss and loss per share.

For the year ended September 30, 2018, revenue was previously reported as $9,199,710 and restated as $8,942,162, due to a reclass of $257,548 to tenant income. Cost of sales was previously reported as

$2,051,890 and restated as $2,032,165, due to a reclass of $19,725 to tenant income. There was no impact on net loss and loss per share.

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

(c) *Other*

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

ADDITIONAL INFORMATION

Strategic Update

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

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

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

Brand protection market. The Company completed its first sale in the brand protection market this year and launched its LiveLogo and Dynamic Portrait products targeted for the commercial markets. During the quarter, Nanotech's sales team participated in targeted industry tradeshows and events to promote the Company's brand protection product line. Nanotech's products have garnered strong interest from the industry, with several opportunities in the sales pipeline.

Financial Outlook

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

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

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, 2019 and 2018
(Unaudited)

Nanotech Security Corp.

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

Three and nine months ended June 30, 2019 and 2018
(In Canadian dollars)

	Three months ended June 30		Nine months ended June 30	
	2019	2018	2019	2018
		Restated note 3(b)		Restated note 3(b)
Revenue (notes 3(b) and 12)	$ 1,891,014	$ 1,874,878	$ 5,530,772	$ 5,913,897
Cost of sales (note 13)	522,863	318,790	1,619,984	1,364,330
	1,368,151	1,556,088	3,910,788	4,549,567
Expenses (note 13)				
Research and development	416,722	456,241	1,155,372	1,194,917
General and administration	613,740	702,377	1,738,490	1,934,490
Sales and marketing	563,373	569,274	1,536,917	1,515,791
Depreciation and amortization	370,977	395,336	1,127,271	1,114,034
Restructuring costs (note 14)	-	-	815,700	-
	1,964,812	2,123,228	6,373,750	5,759,232
Loss from continuing operations before other expenses	(596,661)	(567,140)	(2,462,962)	(1,209,665)
Other (income) expense				
Foreign exchange (gain) loss	32,798	(31,434)	2,460	(255,293)
Finance income (note 8)	(49,343)	(20,126)	(150,308)	(80,394)
Tenant income (note 3(b))	(58,626)	(59,660)	(184,708)	(180,948)
	(75,171)	(111,220)	(332,556)	(516,635)
Net loss from continuing operations	(521,490)	(455,920)	(2,130,406)	(693,030)
Net loss from discontinued operations (note 15(c))	-	(171,542)	-	(123,322)
Net loss	(521,490)	(627,462)	(2,130,406)	(816,352)
Other comprehensive loss:				
Items that may be subsequently reclassified to earnings:				
Unrealized foreign exchange loss on translation of foreign operation (note 15(c))	-	(28,140)	-	(98,908)
Total comprehensive loss	$ (521,490)	$ (655,602)	$ (2,130,406)	$ (915,260)
Basic and diluted earnings (loss) per share:				
Continuing operations	$ (0.01)	$ (0.01)	$ (0.03)	$ (0.01)
Discontinued operations	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Net loss	$ (0.01)	$ (0.01)	$ (0.03)	$ (0.01)
Weighted average number of common shares				
Basic and diluted	68,959,001	68,395,825	68,875,897	68,395,825

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, 2019	September 30, 2018
Assets		
Current assets:		
Cash and cash equivalents (note 11(c))	$ 2,111,623	$ 2,014,764
Short-term investments (note 5)	7,499,994	7,598,857
Accounts receivable (note 6)	1,329,951	1,962,969
Inventory (note 7)	201,806	173,636
Prepaid expenses and other assets	259,104	125,514
	11,402,478	11,875,740
Property, plant and equipment	15,880,658	16,964,857
Goodwill	1,388,458	1,388,458
	$ 28,671,594	$ 30,229,055
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 1,297,404	$ 1,265,282
Liabilities directly associated with assets held for sale (note 15(a))	10,793	16,204
	1,308,197	1,281,486
Non-current liabilities:		
Tenant inducement	22,975	43,653
	1,331,172	1,325,139
Shareholders' equity		
Share capital (note 9(a))	62,080,465	61,892,395
Contributed surplus (note 9(b))	3,309,806	2,930,964
Deficit	(38,049,849)	(35,919,443)
	27,340,422	28,903,916
	$ 28,671,594	$ 30,229,055

Related party transactions (note 10)
Commitments (note 16)
See accompanying notes to the condensed consolidated interim financial statements.

Approved on behalf of the Board of Directors:

"Doug Blakeway"
Doug Blakeway, Director

"Ronan McGrath"
Ronan McGrath, Director

Nanotech Security Corp.

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

Nine months ended June 30, 2019 and 2018
(In Canadian dollars)

	Number of shares	Share capital	Contributed surplus	Deficit	Accumulated other comprehensive loss	Total shareholders' equity
Balance as at October 1, 2017	68,395,825	$ 61,426,483	$ 2,715,137	$ (35,873,177)	$ (68,905)	$ 28,199,538
Net loss	-	-	-	(816,352)	-	(816,352)
Unrealized foreign exchange loss on translation	-	-	-	-	(98,908)	(98,908)
Share-based compensation - options (note 9(b)(i))	-	-	224,231	-	-	224,231
Share-based compensation - RSUs (note 9(b)(ii))	-	-	311,011	-	-	311,011
Foreign exchange reclassified upon disposal of foreign operation (note 15(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
Balance as at October 1, 2018	68,771,501	$ 61,892,395	$ 2,930,964	$ (35,919,443)	$ -	$ 28,903,916
Net loss	-	-	-	(2,130,406)	-	(2,130,406)
RSUs vested (note 9(b)(ii))	187,500	188,070	(188,070)	-	-	-
Share-based compensation - options (note 9(b)(i))	-	-	313,625	-	-	313,625
Share-based compensation - RSUs (note 9(b)(ii) and note 14)	-	-	253,287	-	-	253,287
Balance as at June 30, 2019	68,959,001	$ 62,080,465	$ 3,309,806	$ (38,049,849)	$ -	$ 27,340,422

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, 2019 and 2018
(In Canadian dollars)

	Three months ended June 30		Nine months ended June 30	
	2019	2018	2019	2018
Cash flows provided by (used in):				
Operating activities:				
Net loss from continuing operations	$ (521,490)	$ (455,920)	$ (2,130,406)	$ (693,030)
Items not involving cash:				
Depreciation and amortization (note 13)	386,496	406,021	1,167,865	1,186,419
Share-based compensation (note 13 and note 14)	168,904	201,803	566,912	535,242
Unrealized foreign exchange gain	(16,694)	-	(16,694)	-
Interest income (note 8)	(51,493)	(24,967)	(156,600)	(89,266)
Other	(4,636)	(7,254)	(17,859)	(22,376)
Non-cash working capital changes (note11(a))	(457,346)	541,453	529,444	42,333
Interest received	125,833	25,328	185,651	90,964
	(370,426)	686,464	128,313	1,050,286
Net cash provided by (used in) discontinued operations (note 15(b))	(434)	(3,018)	(5,411)	94,618
Cash provided by (used in) operating activities	(370,860)	683,446	122,902	1,144,904
Investing activities:				
Purchase of property and equipment (note 11(d))	(63,527)	(1,490,993)	(93,503)	(2,478,900)
Disposal of short-term investments	203,314	-	203,314	-
Net acquisition of short-term investments	(108,146)	-	(136,321)	-
Cash provided by (used in) investing activities	31,641	(1,490,993)	(26,510)	(2,478,900)
Effect of foreign exchange on cash and cash equivalents	467	(28,140)	467	(98,908)
Increase (decrease) in cash and cash equivalents	(338,752)	(835,687)	96,859	(1,432,904)
Cash and cash equivalents, beginning of period	2,450,375	10,286,702	2,014,764	10,883,919
Cash and cash equivalents, end of period	$ 2,111,623	$ 9,451,015	$ 2,111,623	$ 9,451,015

See supplementary cash flow information (note 11)
See accompanying notes to the condensed consolidated interim financial statements.

1. Summary of business

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

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

2. Basis of preparation

(a) *Statement of compliance*

These condensed consolidated interim financial statements are prepared in accordance with International Accounting Standards ("IAS") 34 – *Interim Financial Reporting*, as issued by the International Accounting Standards Board ("IASB") on a basis consistent with those followed in the most recent annual consolidated financial statements, with the exception of new accounting policies that were adopted on October 1, 2018 as described in note 3.

These condensed consolidated interim financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the Company's audited consolidated financial statements for the year ended September 30, 2018.

Certain comparative figures in the condensed consolidated interim 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 7, 2019.

(b) *Basis of measurement*

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

3. Change in accounting policy

(a) *IFRS 9 – Financial Instruments*

In July 2014, the IASB issued IFRS 9 – *Financial Instruments*, which replaces earlier versions of IFRS 9 (2009, 2010 and 2013) and completes the IASB's project to replace IAS 39 – *Financial Instruments: Recognition and Measurement*. IFRS 9 includes a logical model for classification and measurement of financial assets and a single, forward-looking 'expected credit loss' impairment model.

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

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

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

3. Change in accounting policy (continued)

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

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

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

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

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

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

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

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

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

In May 2014, the IASB issued IFRS 15 – *Revenue from Contracts with Customers*, which supersedes IAS 18 – *Revenue*, IAS 11 – *Construction Contracts* and other interpretive guidance associated with revenue recognition. IFRS 15 provides a single, principles-based five-step model to be applied to all contracts with customers to determine how and when an entity should recognize revenue. The standard also provides guidance on whether revenue should be recognized at a point in time or over time as well as requirements for more informative, relevant disclosures.

3. Change in accounting policy (continued)

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

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

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

For the three and nine months ended June 30, 2018, revenue was previously reported as $1,938,248 and $6,114,570 respectively and restated as $1,874,878 and $5,913,897 respectively, due to a reclass of $63,370 and $200,673 respectively to tenant income. Cost of sales for the three and nine months ended June 30, 2018 was previously reported as $322,500 and $1,384,055 respectively and restated as $318,790 and $1,364,330 respectively, due to a reclass of $3,710 and $19,725 respectively to tenant income. There was no impact on net loss and loss per share.

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

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

(c) *Other*

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

4. New standards and interpretations not yet adopted

IFRS 16 – Leases

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

(In Canadian dollars)

5. Short-term investments

Short-term investments of $7,499,994 (September 30, 2018 - $7,598,857) consist of cashable term deposits held with a Canadian chartered bank. The term deposits have maturity dates between August 20, 2019 and December 23, 2019. Interest rates range between 1.97% and 2.03%.

6. Accounts receivable

Accounts receivable of $1,329,951 (September 30, 2018 - $1,962,969) include $187,834 (September 30, 2018 - $nil) of unbilled revenue.

7. Inventory

	June 30, 2019	September 30, 2018
Raw materials	$ 127,358	$ 160,550
Work in progress	39,486	13,086
Finished goods	34,962	-
	$ 201,806	$ 173,636

There were inventory write-downs of $nil and $47,513 respectively during the three and nine months ended June 30, 2019 (June 30, 2018 - $nil).

For the three months ended June 30, 2019, the Company recognized inventories of $68,342 (June 30, 2018 - $55,474) as expensed through cost of sales. For the nine months ended June 30, 2019, the Company recognized inventories of $494,197 (June 30, 2018 - $567,905) as expensed through cost of sales.

8. Finance income

	Three months ended June 30		Nine months ended June 30	
	2019	2018	2019	2018
Interest income from cash and cash equivalents and short-term investments	$ (51,493)	$ (24,967)	$ (156,600)	$ (89,266)
Other interest expenses	2,150	4,841	6,292	8,872
	$ (49,343)	$ (20,126)	$ (150,308)	$ (80,394)

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, 2018	68,771,501	$ 61,892,395
RSUs vested	187,500	188,070
Balance as at June 30, 2019	68,959,001	$ 62,080,465

There are no preferred shares issued and outstanding.

(In Canadian dollars)

9. Share capital (continued)

(b) *Share-based payment plans*

(i) Stock option plan

Under the Company's share incentive plan, the maximum number of shares that may be reserved for grant of options at any point in time is 10.0% of the outstanding shares less any shares reserved for issuance under the restricted share unit ("RSU") plan. The following stock options were outstanding as at June 30, 2019:

	Number of options	Weighted average exercise price
Balance as at September 30, 2018	2,607,500	$ 1.35
Granted	1,677,500	0.61
Expired	(300,000)	1.65
Balance as at June 30, 2019	3,985,000	$ 1.02

The following table summarizes information pertaining to the Company's stock options outstanding as at June 30, 2019:

	Options outstanding			Options exercisable	
Range of exercise prices	Number of options outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price	Number of options exercisable	Weighted average exercise price
$0.00 - $1.00	1,677,500	4.24	$ 0.61	771,250	$ 0.61
$1.01 - $1.25	1,126,500	1.69	1.14	1,064,000	1.13
$1.26 - $1.65	1,181,000	1.75	1.48	1,086,625	1.49
	3,985,000	2.78	$ 1.02	2,921,875	$ 1.13

The Company calculates the fair value of the options at the grant date using the Black-Scholes option-pricing model. The table below outlines the weighted average assumptions used to estimate the fair value of options granted during the three and nine month periods ended June 30, 2019 and 2018:

	Three months ended June 30		Nine months ended June 30	
	2019	2018	2019	2018
Risk free interest rate	1.4%	2.0%	2.0%	1.9%
Expected volatility	46.0%	43%	44.9%	43%
Expected life	5.0	5.0	4.7	4.5
Expected dividends	Nil	Nil	Nil	Nil
Average fair value	$0.25	$0.48	$0.23	$0.52

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	
	2019	2018	2019	2018
Total compensation – stock options	$ 115,717	$ 74,874	$ 313,625	$ 224,231

(In Canadian dollars)

9. Share capital (continued)

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

(ii) Restricted share unit plan

RSUs outstanding as at June 30, 2019:

	Number of RSUs
Balance as at September 30, 2018	370,606
Vested	(187,500)
Forfeited	(15,120)
Granted	298,640
Balance as at June 30, 2019	466,626

For the three and nine months ended June 30, 2019, 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	
	2019	2018	2019	2018
Total compensation - RSUs	$ 53,187	$ 126,929	$ 161,087	$ 311,011

10. Related party transactions

(a) *Remuneration of key management personnel*

	Three months ended June 30		Nine months ended June 30	
	2019	2018	2019	2018
Salaries, accrued bonuses, and employee benefits	$ 150,344	$ 302,238	$ 456,276	$ 904,578
Share-based payments	60,343	139,632	222,935	397,822
Restructuring costs (note 14)	-	-	815,700	-
	$ 210,687	$ 441,870	$ 1,494,911	$1,302,400

(b) As at June 30, 2019, amounts owing to a company controlled by a director of the Company included in accounts payable and accrued liabilities were $120,321 (September 30, 2018 - $191,433). These payables represent amounts owing under the terms of an executive services consulting agreement, including payments owing upon the early termination of this agreement (note 14).

(c) Legal and professional fees, taxes and disbursements totaling $4,658 for the three months ended June 30, 2019 (June 30, 2018 - $13,815) and $40,912 for the nine months ended June 30, 2019 (June 30, 2018 - $68,284) were incurred with a law firm of which a director of the Company is a partner. As of June 30, 2019, amounts owing to this law firm included in accounts payable and accrued liabilities were $49,501 (September 30, 2018 - $50,780). During the quarter ended June 30, 2019, the Company retained new legal counsel and moved its registered and records office.

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

(In Canadian dollars)

11. Supplementary cash flow information

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

	Three months ended June 30		Nine months ended June 30	
	2019	2018	2019	2018
Accounts receivable	$ (303,698)	$ 916,000	$ 646,413	$ 431,428
Inventory	(4,168)	(56,586)	(16,434)	(53,540)
Prepaid expenses and other assets	(124,742)	(66,349)	(133,662)	29,623
Accounts payable and accrued liabilities (note 11(d))	(24,738)	100,417	33,127	(208,007)
Deferred revenue	-	(352,029)	-	(157,171)
	$ (457,346)	$ 541,453	$ 529,444	$ 42,333

(b) *Income taxes*

The Company did not pay any income taxes during the three and nine months ended June 30, 2019 and 2018.

(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 the market value:

	June 30, 2019	September 30, 2018
Cash	$ 622,339	$ 292,688
Cash equivalents	1,489,284	1,722,076
	$ 2,111,623	$ 2,014,764

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

As at June 30, 2019, property, plant and equipment included in accounts payable was $1,900 (June 30, 2018 - $205,964).

12. Revenue and segmented information

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

	Three months ended June 30		Nine months ended June 30	
	2019	2018 Restated note 3(b)	2019	2018 Restated note 3(b)
Contract services	$ 1,677,158	$ 1,762,791	$ 4,633,578	$ 5,192,693
Products	150,180	6,135	319,435	53,881
Steam	63,676	105,952	577,759	667,323
	$ 1,891,014	$ 1,874,878	$ 5,530,772	$ 5,913,897

For the three months ended June 30, 2019, sales within Canada were $207,916 (June 30, 2018 - $106,102) and sales outside Canada were $1,683,098 (June 30, 2018 - $1,768,776).

For the nine months ended June 30, 2019, sales within Canada were $831,762 (June 30, 2018 - $703,744) and sales outside Canada were $4,699,010 (June 30, 2018 - $5,210,153).

(In Canadian dollars)

12. Revenue and segmented information (continued)

During the three months ended June 30, 2019, the Company had one customer who represented greater than 10% of total revenues. This customer represented approximately 89% of total revenues (June 30, 2018 – one customer represented approximately 94% of total revenues).

During the nine months ended June 30, 2019, the Company had one customer who represented greater than 10% of total revenues. This customer represented approximately 84% of total revenues (June 30, 2018 – one customer represented approximately 88% of total revenues).

13. Nature of expenses

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

	Three months ended June 30		Nine months ended June 30	
	2019	2018	2019	2018
Salaries and benefits	$ 896,931	$ 893,696	$ 2,525,494	$ 2,509,167
Share-based compensation	168,904	201,803	474,712	535,242
Depreciation and amortization	386,496	406,021	1,167,865	1,186,419
Travel and entertainment	82,034	80,828	220,597	246,783
Professional fees and insurance	285,425	226,394	703,078	669,206
Public company costs	91,184	164,994	297,576	455,582
Rent and utilities	178,094	168,894	543,886	499,090
Maintenance and office expenses	92,307	68,476	246,179	162,835
Materials consumed	306,300	230,912	998,647	859,238
Restructuring costs (note 14)	-	-	815,700	-
	$ 2,487,675	$ 2,442,018	$ 7,993,734	$ 7,123,562

14. Restructuring costs

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

In January 2019, $725,000 was paid to Mr. Blakeway and 187,500 shares were issued to Mr. Blakeway upon vesting of his RSUs.

15. Discontinued operations

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

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

(In Canadian dollars)

15. Discontinued operations (continued)

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

	June 30, 2019	September 30, 2018
Accounts payable and accrued liabilities	$ 10,793	$ 16,204
Liabilities directly associated with assets held for sale	$ 10,793	$ 16,204

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

	Three months ended June 30		Nine months ended June 30	
	2019	2018	2019	2018
Net loss from discontinued operations	$ -	$ (171,542)	$ -	$ (123,322)
Foreign exchange reclassified upon disposal of foreign operation	-	167,813	-	167,813
Non-cash working capital changes	(434)	711	(5,411)	50,127
	$ (434)	$ (3,018)	$ (5,411)	$ 94,618

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

	Three months ended June 30		Nine months ended June 30	
	2019	2018	2019	2018
Revenue	$ -	$ 212,962	$ -	$ 827,256
Cost of sales	-	145,487	-	454,573
	-	67,475	-	372,683
Expenses				
General and administration	-	63,270	-	311,217
Sales and marketing	-	8,744	-	14,994
	-	72,014	-	326,211
Income (loss) before other expenses	-	(4,539)	-	46,472
Other (income) expense				
Finance expense	-	628	-	3,419
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)	$ -	$ (123,322)
Other comprehensive loss:				
Unrealized foreign exchange loss on translation of foreign operation	-	(28,140)	-	(98,908)
Total comprehensive loss from discontinued operations	$ -	$ (199,682)	$ -	$ (222,230)

(In Canadian dollars)

16. Commitments

As at June 30, 2019, the Company is committed to operating leases in respect of office space and to contracted equipment maintenance for the following amounts:

2019	$	113,311
2020		365,522
2021		246,102
2022		240,183
2023		145,924
	$	1,111,042