



# News Release

TSXV, Tier 1: "NTS"

OTCQX: "NTSFF"

## ***Nanotech Announces Strong Fourth Quarter and Fiscal 2017 Year-End Results***

*Adjusted EBITDA of \$1.2 million – Surpasses Fiscal 2017 Goal*

**VANCOUVER, British Columbia – December 21, 2017** – Nanotech Security Corp. (TSXV: NTS) (OTCQX: NTSFF), ("Nanotech" or the "Company") a leading innovator in the design and supply of advanced security products for the anti-counterfeiting market, today released its financial results for the fourth quarter and year ended September 30, 2017. Unless otherwise stated, all dollar amounts are expressed in Canadian dollars.

### **Highlights from 2017 Continuing Operations**

- **Revenue increased 154% to \$7.3 million compared to the same period last year.** Paid development contracts and optical thin film ("OTF") deliveries from our Thurso facility accounted for the year over year revenue growth.
- **Gross margins improved to 81%, up from 69% in the same period last year.** Gross margins continue to reflect strong margins from both development contracts and OTF deliveries.
- **Annual Adjusted EBITDA<sup>(1)</sup> reached \$1.2 million.** Strong revenues and gross margins resulted in Nanotech achieving its first full year of positive Adjusted EBITDA, a notable milestone and improvement from the \$3.6 million negative Adjusted EBITDA reported for the same period last year.
- **Successfully closed \$13.3 million private bought deal financing.** On May 18, 2017, the Company closed a \$13.3 million financing. Part of the proceeds were used to repay \$1.4 million of convertible debentures and retire a \$3.0 million secured note.
- **Cash balance of \$10.9 million at quarter-end.** The Company finished the year with a strong cash position and no debt or warrants outstanding.

### **Recent Developments**

- **Divestiture of non-core business.** On September 21, 2017, Company Directors decided that selling the Company's subsidiary, Tactical Technologies Inc. ("Tactical"), was in the Company's long-term interest. The Company is actively pursuing potential purchasers and has engaged a business broker to pursue interested third parties. 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 consolidated statements of operation have been restated to exclude the discontinued operations. The Company has restructured Tactical's operations and it currently operates with five employees with a limited cash burn. At September 30, 2017, Tactical had \$216,225 in assets held for sale and \$200,226 in liabilities. It is expected that Tactical will either be sold or wound down over the next six months.
- **Paid development contracts are progressing well.** The Company currently derives a significant portion of its revenue from paid development projects with major issuing authorities. During the year, the Company announced 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. All projects are progressing well and the Company continues to see development revenue as a significant growth area for the business.
- **Tax stamps and commercial markets.** The Company's nano-optic images have now become qualified with a customer in India that is currently supplying several billion holographic tax stamps to the Indian government. Management is working with this customer to transition the government from traditional holographic images to licensing Nanotech nano-optic images.



- **Commercial applications.** The Indian market has presented several other long-term opportunities beyond tax stamps. The Company is working with the same tax stamp partner to pursue the broader foil packaging market. Outside of India, the Company is pursuing opportunities in the luxury brand, cosmetics and pharmaceutical markets.
- **Thurso OTF opportunities.** The Company continues to deliver OTF from its Thurso facility. The Company also sees new opportunities to potentially work on new denominations within our existing customer base.
- **Asian OTF opportunities.** The Company continues to work with its European production partner Hueck Folien to become qualified to deliver volume OTF to a specific Asian customer. Overall, management remains optimistic that there is strong customer demand for OTF and that over time our production partner, Hueck Folien will be successful in demonstrating its ability to produce colour-shifting OTF. At this point in time, management cannot specify when or if volume shipments will commence to this customer.

Doug Blakeway, Nanotech's Chairman and CEO, commented, "Fiscal year 2017 was, by all accounts, a tremendous year for Nanotech Security. Growing our revenues by 154% and achieving \$1.2 million of positive Adjusted EBITDA far exceeds our goals for the year. With over \$10.9 million in cash and no debt, the Company is well positioned to continue our growth in 2018."

### **Select Financial Information**

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

	Three months ended			Years ended		
	September 30,			September 30,		
	2017	2016	Change %	2017	2016	Change %
Revenue	\$ 2,661,660	\$ 1,177,366	126%	\$ 7,343,791	\$ 2,888,896	154%
Gross profit	2,242,745	924,237	143%	5,914,420	2,004,764	195%
Gross profit %	84%	79%		81%	69%	
Adjusted EBITDA <sup>(1)</sup>	1,132,249	(444,278)	355%	1,168,222	(3,648,411)	132%
Net loss	(300,694)	(1,676,026)	(82%)	(4,754,132)	(7,829,805)	(39%)
Net loss per share						
Basic and diluted	0.00	(0.03)		(0.08)	(0.15)	
Weighted average number of common shares						
Basic and diluted	68,107,758	53,686,940		59,056,353	53,524,646	

<sup>(1)</sup>Adjusted EBITDA is a non-IFRS measure as described in the Non-IFRS Financial Measures section of this News Release.

Financial Position as at September 30,	2017	2016	% Change
Cash	\$ 10,883,919	\$ 3,312,691	229%
Total debt	-	6,595,142	(100%)
	\$ 10,883,919	\$ (3,282,451)	432%
Total assets	\$ 30,059,624	\$ 24,511,586	23%
Total liabilities	1,860,086	8,089,503	(77%)
Total equity	28,199,538	16,422,083	72%





Depreciation and amortization included in operating expenditures for the year ended September 30, 2017 was \$2,755,882, compared to \$3,010,263 in the same period last year. Depreciation included in cost of sales for the year ended September 30, 2017 was \$160,401 compared to \$67,734 for the same period last year. The reduction in depreciation and amortization expenditures also reflects the Company's declining balance depreciation policy and fewer fixed asset additions.

As of September 30, 2017, the Company has fully amortized its intangible assets, which will result in a reduction in annual amortization of \$1,361,239 going forward.

### **Other Expenses**

Other expenses for the three months ended September 30, 2017 were \$101,701, a decrease of \$97,459 compared to \$199,160 in the same period last year. The decrease includes a reduction in net interest expense of \$234,923 reflecting the repayment of both the convertible debt, long-term debt and having more cash on hand. This improvement was partially offset by a foreign exchange loss of \$112,974 during the period compared to a \$24,490 gain in the same period last year.

Other expenses for the year ended September 30, 2017 were \$1,184,594, an increase of \$751,081 compared to \$433,513 in the same period last year. The 2017 results contain \$1,014,779 of interest expense including, \$589,858 of accretion that was a result of the Company's decision to repay the convertible debentures and an increase in foreign exchange loss during the year.

### **Adjusted EBITDA**

Adjusted EBITDA for the three months ended September 30, 2017 was \$1,132,249, compared to negative \$444,278 during the same period last year. Adjusted EBITDA for the year ended September 30, 2017 was \$1,168,222, compared to negative \$3,648,411 during the same period last year. The improvement reflects an increase in revenues, reduced expenses, and higher margins.

### **Net Loss**

Net loss for the three months ended September 30, 2017 was \$300,694, compared to \$1,676,026 during the same period last year. Net loss for the year ended September 30, 2017 was \$4,754,132, compared to \$7,829,805 during the same period last year. The decrease in net loss also reflects an increase in revenues, higher margins, and lower expenses.

### **Capital Resources**

The Company ended the year with \$10,883,919 in cash and cash equivalents, up from \$3,312,691 at September 30, 2016. On May 18, 2017, the Company completed a bought deal private placement with a syndicate of underwriters whereby a total of 11,586,870 common shares of the Company were issued at a price of \$1.15 per share, for total gross proceeds of \$13,324,901.

During the year, the Company had convertible debentures outstanding with a face value amounting to \$4,185,000 with a maturity date of 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. 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. Most 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.

The Company also had a note payable that was fully secured against the assets of the Company and required interest payments at a fixed rate of 4% per annum, with payment of the principal due on September 16, 2017. On August 21, 2017, the note payable was repaid in full and all security released.

The Company had approximately \$2.6 million in commitments as of September 30, 2017. Management has reviewed its projected funding requirements and expects that, through the generation and collection of revenues, the Company will continue to maintain sufficient liquidity through September 30, 2018.



## **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 loss excluding the impact of interest and financing costs (net of interest income), income taxes, depreciation and amortization, share-based compensation, loss from discontinued operations, and foreign exchange (gain) loss. The Company believes Adjusted EBITDA is a useful measure because 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, and 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		Years ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Net loss	\$ (300,694)	\$ (1,676,026)	\$ (4,754,132)	\$ (7,829,805)
Finance (income) expense	(11,273)	223,650	1,014,779	354,720
Foreign exchange (gain) loss	112,974	(24,490)	169,815	78,793
Deferred income tax recovery	-	-	-	(162,797)
Depreciation and amortization	727,430	768,766	2,916,283	3,077,997
Share-based compensation	176,535	153,553	921,198	661,786
Loss from discontinued operations	427,277	110,269	900,279	170,895
<b>Adjusted EBITDA</b>	<b>\$ 1,132,249</b>	<b>\$ (444,278)</b>	<b>\$ 1,168,222</b>	<b>\$ (3,648,411)</b>

The Company's MD&A for the year ended September 30, 2017 provides additional information regarding these financial metrics and the specified items affecting the comparability of net earnings.



**ADDITIONAL INFORMATION**

**Outlook**

Nanotech is a leader in next-generation anti-counterfeiting products. These products have brand protection and enhancement applications across a wide range of markets including banknotes, secure government documents, commercial branding, and the pharmaceutical industry. Nanotech is initially focusing its efforts on the banknote market due to its strong margins and established customer base. With the recent signing of the \$30 million development contract, the Company is focusing on further developing business with its established customer base and, as a result, is well positioned to expand its authentication development contract revenue and other nano-optic and OTF opportunities in the years ahead.

In 2017, management established goals to double its revenue and make significant progress towards becoming cash flow positive. Management is pleased that it has exceeded both goals for 2017 with revenue growth of 154% and achieving positive Adjusted EBITDA of \$1,168,222 for the year. In addition, the Company has developed many significant market opportunities in the banknote, tax stamp and commercial markets.

Looking ahead to 2018, the Company is well positioned financially to pursue these opportunities. With a strong balance sheet including \$10,883,919 in cash and no debt, management has established the following goals for 2018:

1. Grow revenues by 20% to 40% (which excludes the potential Asian OTF order);
2. Begin to collect licensing revenue from the tax stamp and commercial markets;
3. Maintain a strong focus on earnings with a target of 15% to 20% Adjusted EBITDA margin;
4. Continue to pursue a volume OTF partnering opportunity with Hueck Folien for Asian banknotes;
5. 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; and
6. Continue to open new corporate development opportunities by partnering with established companies to enable Nanotech to enter new markets.

Achieving these results is not certain and involves known and unknown risks that may cause actual results to differ materially from this goal. These risks and uncertainties include, among other things, risks related to uncertainty of amount and timing of purchase orders, the ability of Hueck Folien to successfully deliver volume production, and our ability to expand our development revenue. These and other risk factors are further discussed under the “Business Risks and Uncertainties” segment of the September 30, 2017 Management’s Discussion and Analysis.



# Nanotech Security Corp.

## Condensed Consolidated Statements of Operations and Comprehensive Loss

Years ended September 30, 2017 and 2016

(In Canadian dollars)

	Three months ended		Years ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Revenue	\$ 2,661,660	\$ 1,177,366	\$ 7,343,791	\$ 2,888,896
Cost of sales	418,915	253,129	1,429,371	884,132
Gross profit	2,242,745	924,237	5,914,420	2,004,764
Expenses				
Research and development	296,124	468,533	1,475,437	1,996,715
General and administration	444,859	592,539	2,308,846	2,307,368
Sales and marketing	595,165	515,631	2,043,514	2,078,612
Depreciation and amortization	678,313	714,131	2,755,882	3,010,263
	2,014,461	2,290,834	8,583,679	9,392,958
Income (loss) from continuing operations before other expenses	228,284	(1,366,597)	(2,669,259)	(7,388,194)
Other expenses				
Foreign exchange (gain) loss	112,974	(24,490)	169,815	78,793
Finance (income) expense	(11,273)	223,650	1,014,779	354,720
	101,701	199,160	1,184,594	433,513
Income (loss) from continuing operations before income taxes	126,583	(1,565,757)	(3,853,853)	(7,821,707)
Deferred income tax recovery	-	-	-	162,797
Net income (loss) from continuing operations	126,583	(1,565,757)	(3,853,853)	(7,658,910)
Loss from discontinued operations	(427,277)	(110,269)	(900,279)	(170,895)
Net loss	(300,694)	(1,676,026)	(4,754,132)	(7,829,805)
Other comprehensive income (loss):				
Items that may be subsequently reclassified to earnings:				
Unrealized foreign exchange gain (loss) on translation of foreign operation	61,890	(14,258)	85,605	24,654
Total comprehensive loss	\$ (238,804)	\$ (1,690,284)	\$ (4,668,527)	\$ (7,805,151)
Basic earnings (loss) per share:				
Continuing operations	\$ 0.00	\$ (0.03)	\$ (0.07)	\$ (0.14)
Discontinued operations	\$ 0.00	\$ 0.00	\$ (0.01)	\$ (0.01)
Net loss	\$ 0.00	\$ (0.03)	\$ (0.08)	\$ (0.15)
Diluted earnings (loss) per share:				
Continuing operations	\$ 0.00	\$ (0.03)	\$ (0.07)	\$ (0.14)
Discontinued operations	\$ 0.00	\$ 0.00	\$ (0.01)	\$ (0.01)
Net loss	\$ 0.00	\$ (0.03)	\$ (0.08)	\$ (0.15)
Weighted average number of common shares:				
Basic	68,107,758	53,686,940	59,056,353	53,524,646
Diluted	68,497,093	53,686,940	59,056,353	53,524,646



# Nanotech Security Corp.

Condensed Consolidated Statements of Financial Position  
as at September 30, 2017 and 2016

(In Canadian dollars)

	2017	2016
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 10,883,919	\$ 3,312,691
Accounts receivable	1,374,442	597,414
Inventory	151,708	385,753
Prepaid expenses and other assets	187,874	127,719
Assets held for sale	216,225	-
	<b>12,814,168</b>	<b>4,423,577</b>
Property, plant and equipment	15,856,998	17,338,312
Goodwill	1,388,458	1,388,458
Intangible assets	-	1,361,239
	<b>\$ 30,059,624</b>	<b>\$ 24,511,586</b>
<b>Liabilities and Shareholders' Equity</b>		
<b>Current liabilities:</b>		
Accounts payable and accrued liabilities	\$ 1,431,466	\$ 1,395,568
Deferred revenue	157,171	-
Liabilities directly associated with assets held for sale	200,226	-
Note payable	-	3,000,000
	<b>1,788,863</b>	<b>4,395,568</b>
<b>Non-current liabilities:</b>		
Convertible debentures	-	3,595,142
Tenant inducement	71,223	98,793
	<b>1,860,086</b>	<b>8,089,503</b>
<b>Shareholders' equity</b>		
Share capital	61,426,483	45,210,507
Contributed Surplus	2,715,137	2,485,131
Deficit	(35,873,177)	(31,119,045)
Accumulated other comprehensive loss	(68,905)	(154,510)
	<b>28,199,538</b>	<b>16,422,083</b>
	<b>\$ 30,059,624</b>	<b>\$ 24,511,586</b>



# Nanotech Security Corp.

Condensed Consolidated Statements of Cash Flows  
Years ended September 30, 2017 and 2016

(in Canadian Dollars)

	Three months ended September 30,		Years ended September 30,	
	2017	2016	2017	2016
Cash flows provided by (used in):				
Operating activities:				
Net income (loss) from continuing operations	\$ 126,583	\$(1,565,757)	\$(3,853,853)	\$(7,658,910)
Items not involving cash:				
Depreciation and amortization	729,030	768,766	2,917,883	3,077,997
Share-based compensation	176,535	153,553	921,198	661,786
Accretion of convertible debentures	-	71,969	589,858	80,825
Other	(6,892)	(6,892)	(27,570)	(27,570)
Deferred income taxes	-	-	-	(162,797)
Non-cash working capital changes	(394,605)	(93,361)	(720,420)	371,023
	630,651	(671,722)	(172,904)	(3,657,646)
Discontinued operations:				
Net loss from discontinued operations	(427,277)	(110,269)	(900,279)	(170,895)
Depreciation	3,214	6,487	12,804	17,689
Items not involving cash	391,077	(100,788)	313,162	(91,976)
Cash provided by (used in) operating activities	597,665	(876,292)	(747,217)	(3,902,828)
Investing activities:				
Purchase of property and equipment	(11,542)	12,933	(106,944)	(148,752)
Cash provided by (used in) investing activities	(11,542)	12,933	(106,944)	(148,752)
Financing activities:				
Issuance of shares for options exercised	-	17,400	223,000	197,400
Proceeds on financing, net of costs	-	-	12,486,784	-
Repayment of note payable	(3,000,000)	-	(3,000,000)	-
Repayment of convertible debentures	-	-	(1,370,000)	-
Proceeds on issuance of convertible debenture, net of costs	-	-	-	4,120,289
Cash provided by (used in) financing activities	(3,000,000)	17,400	8,339,784	4,317,689
Effect of foreign exchange on cash and cash equivalents	61,890	(14,258)	85,605	24,654
Increase (decrease) in cash and cash equivalents	(2,351,987)	(860,217)	7,571,228	290,763
Cash and cash equivalents, beginning of year	13,235,906	4,172,908	3,312,691	3,021,928
Cash and cash equivalents, end of year	\$10,883,919	\$ 3,312,691	\$ 10,883,919	\$ 3,312,691



### **Conference Call Details:**

<b>DATE:</b>	Thursday, December 21, 2017	Time: 5:00 PM Eastern Standard Time
<b>DIAL IN NUMBER:</b>	Toll free (Canada and US): 1-866-548-4713 Conference ID: 2567584	Alternate number: 1-323-794-2093
<b>TAPED REPLAY:</b>	Toll free (Canada and US): 1-844-512-2921 Replay available until January 21, 2018 Replay Pin number: 2567584	Alternate number: 1-412-317-6671 Replay Pin number: 2567584
<b>WEBCAST:</b>	<a href="http://public.viavid.com/index.php?id=127618"><u>http://public.viavid.com/index.php?id=127618</u></a>	

### **FORWARD-LOOKING STATEMENTS**

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

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

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



## About Nanotech Security

Nanotech designs, manufactures and markets nano-optic products that have brand protection and enhancement applications across a wide range of markets including banknotes, tax stamps, secure government documents, commercial branding, and the pharmaceutical industry.

The Company's nano-optic 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.

Additional information about Nanotech can be found at the Company's website [www.nanosecurity.ca](http://www.nanosecurity.ca), the Canadian disclosure filings website [www.sedar.com](http://www.sedar.com) or the OTCMarkets disclosure filings website [www.otcm Markets.com](http://www.otcm Markets.com).

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**Nanotech Security Corp:**

Doug Blakeway  
info@nanosecurity.ca

**Canada Investor Relations:**

Sean Peasgood  
sean@SophicCapital.com  
+1.416.565.2805

**U.S. Investor Relations:**

Matthew Selinger  
mselinger@threepa.com  
+1.817.310.8776

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