Nanotech Announces Second Quarter Fiscal 2018 Results

Fourth Consecutive Quarter of Positive Adjusted EBITDA

VANCOUVER, British Columbia – May 10, 2018 – Nanotech Security Corp. (TSXV: NTS) (OTCQX: NTSFF) ("Nanotech" or the "Company"), a leading innovator in the research, creation and production of nano-optic structures and colour-shifting materials used in authentication and brand enhancement, today released its financial results for the three and six months ended March 31, 2018. Unless otherwise stated, all dollar amounts are expressed in Canadian dollars.

Highlights during the Second Quarter

- **Revenue of $1.9 million was 37% higher than the same period last year.** Paid development contracts continue to drive period over period revenue growth.
- **Gross margins were 74%, up from 66% in the same period last year.** Gross margins continue to reflect strong margins from development contracts.
- **Adjusted EBITDA(1) reached $133,000.** The Company recorded its fourth consecutive quarter of positive Adjusted EBITDA, a notable improvement from the negative $268,000 Adjusted EBITDA reported for the same period last year.
- **Cash balance of $10.3 million at quarter-end.** The Company finished the quarter with a strong cash position and no debt outstanding.

Recent Developments

- **Paid development contracts are progressing.** The Company currently derives a significant portion of its revenue from paid authentication development projects with major issuing authorities. During 2017, 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 optical thin film ("OTF") technologies and are focused on developing authentication features for future banknotes. All projects are progressing well and the Company continues to pursue additional development contract revenue as a growth area for the business.
- **Tax stamps and commercial markets.** During the second quarter of 2018, the Company announced a distribution agreement appointing Holostik India Limited and Kumbhat Holographics Co. Limited as Nanotech's authorized distributors and converters for the non-banknote market in India, with an initial focus on the tax stamp and pharmaceutical markets. Outside of India, the Company is pursuing opportunities in the luxury brand, cosmetics and pharmaceutical markets.
- **Thurso OTF opportunities.** The Company invested in a research and development casting line for its Thurso facility during the second quarter of 2018. Management expects this equipment to expand development opportunities and product offerings available from this facility. The Company continues to pursue opportunities to deliver OTF for new denominations within our existing customer base and with new customers. The Thurso operation also participates in researching OTF and production applications for development contracts.
- **Volume OTF opportunities.** The Company continues to work with its European production partner, Hueck Folien, to help them become a qualified volume OTF supplier. Overall, management believes volume colour-shifting OTF is a growth opportunity; however, at this point in time, management cannot specify when or if Hueck Folien will be successful.

- **Expansion of Nanotech team and facility.** During the second quarter of 2018, Nanotech added two key members to its leadership team, with Joe Vosburgh and Monika Russell joining as Vice President Marketing and Vice President Finance, respectively. The Company also added additional support staff, expanded its head office lab space and invested in an electron beam lithography system. These expansion initiatives support Nanotech's growth strategy and enhance the Company's development and marketing capabilities.
- **Divestiture of non-core business.** The Company is actively pursuing strategic options with respect to its subsidiary, Tactical Technologies Inc. ("Tactical"), including potential purchasers or closing the operation. The Company has restructured Tactical's operations and it currently operates with four employees and a limited cash burn. Management expects that Tactical will either be sold or wound down over the next few months.

Doug Blakeway, Nanotech's Chairman and CEO, commented, "Our continued revenue growth and consistently strong margins have led to our fourth consecutive quarter of positive Adjusted EBITDA. This strong financial performance has enabled us to invest in equipment, staff and facilities that will be required to implement our growth strategy. With our solid balance sheet, increased development contract revenue, and advancing customer relationships, we are very well positioned to deliver on our 2018 revenue and Adjusted EBITDA goals and pursue further growth in markets outside of banknotes."

Select Financial Information

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

	Three months ended March 31,			Six months ended March 31,		
	2018	2017	% Change	2018	2017	% Change
Revenue	$ 1,943,095	$ 1,418,644	37%	$ 4,176,322	$ 2,113,115	98%
Gross margin	1,445,391	935,800	54%	3,114,767	1,513,802	106%
Gross margin %	74%	66%		75%	72%	
Adjusted EBITDA[1]	132,955	(267,640)	150%	592,600	(823,221)	172%
Net loss	(284,710)	(1,694,890)	(83%)	(188,890)	(3,548,170)	(95%)
Earnings (loss) per share						
Basic and diluted	0.00	(0.03)		0.00	(0.07)	
Weighted average number of common shares						
Basic and diluted	68,395,825	54,122,396		68,395,825	53,995,433	

[1]Adjusted EBITDA is a non-IFRS measure as described in the Non-IFRS Financial Measures section of this News Release.

Financial Position as at:	March 31, 2018	September 30, 2017	% Change
Cash	$ 10,286,702	$ 10,883,919	(5%)
Total assets	$ 31,620,266	$ 30,059,624	5%
Total liabilities	3,346,947	1,860,086	80%
Total equity	28,273,319	28,199,538	0%

Revenue

Revenues for the three months ended March 31, 2018 increased by $524,451 or 37% to $1,943,095, compared to $1,418,644 in the same period last year. Revenue growth was primarily due to increased revenue from the Thurso operation and paid development contracts.

Revenues for the six months ended March 31, 2018 increased by $2,063,207 or 98% to $4,176,322, compared to $2,113,115 in the same period last year. Revenue growth was primarily due to an increase in paid development activity, as well as increased revenue from the Thurso operation.

Gross Margin

Gross margin for the three months ended March 31, 2018 increased by $509,591 or 54% to $1,445,391, compared to $935,800 in the same period last year. Overall, the gross margin percentage was 74% for the three months ended March 31, 2018, up from 66% in the same period last year. This increase reflects a shift to higher margin development projects.

Gross margin for the six months ended March 31, 2018 increased by $1,600,965 or 106% to $3,114,767, compared to $1,513,802 in the same period last year. Overall, the gross margin percentage was 75% for the six months ended March 31, 2018, similar to the same period last year at 72%.

Operating Costs

Research and development expenditures for the three months ended March 31, 2018 were $392,489 which is consistent with $388,803 in the same period last year.

Research and development expenditures for the six months ended March 31, 2018 decreased by $25,123 or 3% to $738,676, compared to $763,799 in the same period last year. Salaries allocated to R&D expense decreased in the current year, as certain development efforts involved capital projects, resulting in the capitalization of $97,353 of labour costs. This reduction in salaries expense was partially offset by increased investment in patent applications.

General and administration expenditures for the three and six months ended March 31, 2018 were $690,494 and $1,232,113, respectively, compared to $642,835 and $1,185,536 in the same periods last year, respectively. These increases were due to salaries for additional staff hired in the second quarter of 2018 and higher utilities costs at our Thurso operation.

Sales and marketing expenditures for the three months ended March 31, 2018 were $489,767, a decrease of $29,865 or 6%, compared to $519,632 in the same period last year. This mainly relates to a decrease in non-cash share-based compensation expense in the current period.

Sales and marketing expenditures for the six months ended March 31, 2018 were $946,517, consistent with $945,136 in the same period last year.

Depreciation and amortization expenditures for the three and six months ended March 31, 2018 were $408,655 and $718,698, respectively, compared to $693,189 and $1,414,026 in the same periods last year, respectively. The decrease in both periods reflects the Company's declining balance depreciation policy and the intangible assets being completely amortized as at September 30, 2017.

Other income for the three months ended March 31, 2018 was $203,084, an increase of $453,305, compared to other expenses of $250,221 in the same period last year. The increase is primarily due to the repayment of the convertible debentures and long-term debt in 2017, which reduced interest expense by $232,519 in the current quarter compared to the same period last year, while increased cash on hand in the current quarter resulted in a $26,537 increase in interest income. In addition, foreign exchange gains recorded during the quarter were $194,071 higher than in the second quarter of 2017.

Other income for the six months ended March 31, 2018 was $284,127, an increase of $721,073, compared to other expenses of $436,946 in the same period last year. The increase is primarily due to the repayment of the convertible debentures and long-term debt in 2017, which reduced interest expense by $465,138 for the year to date compared to the same period last year, while increased cash on hand resulted in a $59,137 increase in interest income for the year to date. In addition, foreign exchange gains recorded for the year to date were $196,678 higher than in the same period last year.

Adjusted EBITDA

Adjusted EBITDA for the three and six months ended March 31, 2018 was $132,955 and $592,600, respectively, compared to negative $267,640 and negative $823,221 during the same periods last year, respectively. The improvement reflects an increase in revenues and gross margin.

Net Income (Loss) from Discontinued Operations

Net income from discontinued operations for the three months ended March 31, 2018 was $48,220, compared to a net loss of $136,010 during the same period last year. The increase in net income was primarily due to an increase in revenue associated with the delivery of surveillance vans during the quarter, which did not occur in the second quarter of 2017. In addition, there was a reduction in overall expenses in the current quarter as Tactical was restructured following the Company's decision to sell or close the business.

Net income from discontinued operations for the six months ended March 31, 2018 was $48,220, compared to a net loss of $316,529 during the same period last year. The increase in net income was primarily due to an increase in revenue associated with the delivery of surveillance vans during the year to date, which did not occur in the same period last year. In addition, there was a reduction in overall expenses for the year to date as Tactical was restructured following the Company's decision to sell or close the business.

Net Loss

Net loss for the three months ended March 31, 2018 was $284,710, compared to $1,694,890 during the same period last year. The decrease in net loss reflects an increase in revenues in combination with reduced depreciation and amortization expense and lower interest expense.

Net loss for the six months ended March 31, 2018 was $188,890, compared to $3,548,170 during the same period last year. The decrease in net loss reflects an increase in revenues in combination with reduced depreciation and amortization expense and lower interest expense.

Capital Resources

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

The Company's officers are responsible for managing the Company's capital and do so through quarterly meetings and regular reviews of financial information. The Board of Directors is responsible for overseeing this process. In managing its capital, the Company considers changes in economic conditions, risks that impact consolidated operations, and future significant capital investment opportunities. For the six months ended March 31, 2018, there were no changes in our approach to capital management.

As at March 31, 2018, cash and cash equivalents amounted to $10,286,702, compared to $10,883,919 as at September 30, 2017.

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

The Company had commitments of $852,607 as at March 31, 2018.

Management has reviewed its projected funding requirements and expects that, through the generation and collection of revenues, the Company will maintain sufficient liquidity to meet its requirements through March 31, 2019.

Non-IFRS Financial Measures

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

The Company defines Adjusted EBITDA as net income (loss) excluding the impact of interest and financing costs (net of interest income), foreign exchange gain (loss), income taxes, depreciation and amortization, share-based compensation, and net income (loss) from discontinued operations. The Company believes Adjusted EBITDA is a useful measure 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 March 31,		Six months ended March 31,	
	2018	2017	2018	2017
Net loss	$ (284,710)	$ (1,694,890)	$ (188,890)	$ (3,548,170)
Finance (income) expense	(26,226)	233,008	(60,268)	464,127
Foreign exchange (gain) loss	(176,858)	17,213	(223,859)	(27,181)
Depreciation and amortization	423,635	730,723	780,398	1,457,227
Share-based compensation	245,334	310,296	333,439	514,247
Net (income) loss from discontinued operations	(48,220)	136,010	(48,220)	316,529
Adjusted EBITDA	$ 132,955	$ (267,640)	$ 592,600	$ (823,221)

Outlook

With a strong balance sheet, including $10,286,702 in cash and no debt, management continues to be on track to deliver strong annual revenue growth between 20% and 40% and 15% to 20% Adjusted EBITDA margins. A further update on the goals that management established for the 2018 fiscal year is as follows:

1. **Grow revenues by 20% to 40% (which excludes any potential volume OTF order).** Revenues have grown 98% in the first half of fiscal 2018 compared to the same period last year;
2. **Begin to collect licensing revenue from the tax stamp and commercial markets.** We have entered into distribution agreements in India and are pursuing both tax stamp and commercial market revenue from this geographic market;
3. **Maintain a strong focus on earnings with a target of 15% to 20% Adjusted EBITDA margin.** Adjusted EBITDA margin for the first six months of fiscal 2018 was 14%;
4. **Continue to pursue a volume OTF partnering opportunity with Hueck Folien for banknotes**. Management continues to support manufacturing partner Hueck Folien in an ongoing effort to improve the quality of its production;
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**. Joe Vosburgh joined the Company as Vice President Marketing, bringing over 20 years' experience in the successful development and commercialization of breakthrough technologies.

Monika Russell, who has 15 years public company experience, also joined as Vice President Finance, which will allow Troy Bullock, our President and CFO, to expand his responsibilities; and

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

Nanotech is well positioned financially to pursue opportunities in the banknote, tax stamp and commercial markets in the years ahead. In addition to developing further business with its established customer base, including the expansion of its authentication development contract revenue, the Company continues to develop new nano-optic and OTF opportunities.

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, the loss of a key customer, risks related to uncertainty of amount and timing of purchase orders, the ability of Hueck Folien to successfully become a qualified volume OTF supplier, the Company's ability to expand its development revenue and its ability to maintain sufficient liquidity through March 31, 2019 to facilitate any business ramp-up. 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 Interim Statements of Operations and Comprehensive Loss
(Unaudited)

Three and six months ended March 31, 2018 and 2017
(In Canadian dollars)

	Three months ended March 31,		Six months ended March 31,	
	2018	2017	2018	2017
Revenue	$ 1,943,095	$ 1,418,644	$ 4,176,322	$ 2,113,115
Cost of sales	497,704	482,844	1,061,555	599,313
	1,445,391	935,800	3,114,767	1,513,802
Expenses				
Research and development	392,489	388,803	738,676	763,799
General and administration	690,494	642,835	1,232,113	1,185,536
Sales and marketing	489,767	519,632	946,517	945,136
Depreciation and amortization	408,655	693,189	718,698	1,414,026
	1,981,405	2,244,459	3,636,004	4,308,497
Loss from continuing operations before other expenses	(536,014)	(1,308,659)	(521,237)	(2,794,695)
Other (income) expenses				
Foreign exchange (gain) loss	(176,858)	17,213	(223,859)	(27,181)
Finance (income) expense	(26,226)	233,008	(60,268)	464,127
	(203,084)	250,221	(284,127)	436,946
Net loss from continuing operations	(332,930)	(1,558,880)	(237,110)	(3,231,641)
Net income (loss) from discontinued operations	48,220	(136,010)	48,220	(316,529)
Net loss	(284,710)	(1,694,890)	(188,890)	(3,548,170)
Other comprehensive loss:				
Items that may be subsequently reclassified to earnings:				
Unrealized foreign exchange gain (loss) on translation of foreign operation	(45,766)	10,867	(70,768)	(14,102)
Total comprehensive loss	$ (330,476)	$ (1,684,023)	$ (259,658)	$ (3,562,272)
Basic and diluted earnings (loss) per share:				
Continuing operations	$ 0.00	$ (0.03)	$ 0.00	$ (0.06)
Discontinued operations	$ 0.00	$ 0.00	$ 0.00	$ (0.01)
Net loss	$ 0.00	$ (0.03)	$ 0.00	$ (0.07)
Weighted average number of common shares				
Basic and diluted	68,395,825	54,122,396	68,395,825	53,995,433

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Nanotech Security Corp.

Condensed Consolidated Interim Statements of Financial Position
(Unaudited)

(In Canadian dollars)

	March 31, 2018	September 30, 2017
Assets		
Current assets:		
Cash and cash equivalents	$ 10,286,702	$ 10,883,919
Accounts receivable	1,859,014	1,374,442
Inventory	147,062	151,708
Prepaid expenses and other assets	91,902	187,874
Assets held for sale	176,252	216,225
	12,560,932	12,814,168
Property, plant and equipment	17,670,876	15,856,998
Goodwill	1,388,458	1,388,458
	$ 31,620,266	$ 30,059,624
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 2,727,811	$ 1,431,466
Deferred revenue	352,029	157,171
Liabilities directly associated with assets held for sale	209,669	200,226
	3,289,509	1,788,863
Non-current liabilities:		
Tenant inducement	57,438	71,223
	3,346,947	1,860,086
Shareholders' equity		
Share capital	61,426,483	61,426,483
Contributed surplus	3,048,576	2,715,137
Deficit	(36,062,067)	(35,873,177)
Accumulated other comprehensive loss	(139,673)	(68,905)
	28,273,319	28,199,538
	$ 31,620,266	$ 30,059,624

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Nanotech Security Corp.

Condensed Consolidated Interim Statements of Cash Flows
(Unaudited)

Three and six months ended March 31, 2018 and 2017
(in Canadian Dollars)

	Three months ended March 31,		Six months ended March 31,	
	2018	2017	2018	2017
Cash flows provided by (used in):				
Operating activities:				
Net loss from continuing operations	$ (332,930)	$(1,558,880)	$ (237,110)	$(3,231,641)
Items not involving cash:				
Depreciation and amortization	423,635	730,723	780,398	1,457,227
Share-based compensation	245,334	310,296	333,439	514,247
Accretion of convertible debentures	-	78,563	-	154,587
Other	(6,892)	(6,892)	(13,785)	(13,785)
Non-cash working capital changes	(78,656)	(405,449)	(499,120)	(506,802)
	250,491	(851,639)	363,822	(1,626,167)
Net cash provided by (used in) discontinued operations	2,307	(199,909)	97,636	(413,729)
Cash provided by (used in) operating activities	252,798	(1,051,548)	461,458	(2,039,896)
Investing activities:				
Purchase of property and equipment	(819,366)	(73,946)	(987,907)	(90,179)
Cash used in investing activities	(819,366)	(73,946)	(987,907)	(90,179)
Financing activities:				
Issuance of shares for options exercised	-	200,000	-	223,000
Cash provided by financing activities	-	200,000	-	223,000
Effect of foreign exchange on cash and cash equivalents	(45,643)	10,867	(70,768)	(14,102)
Decrease in cash and cash equivalents	(612,211)	(914,627)	(597,217)	(1,921,177)
Cash and cash equivalents, beginning of period	10,898,913	2,306,141	10,883,919	3,312,691
Cash and cash equivalents, end of period	$ 10,286,702	$ 1,391,514	$ 10,286,702	$ 1 ,391,514

Conference Call Details:

DATE:	Thursday, May 10, 2018	Time: 5:00 PM Eastern
DIAL IN NUMBER:	Toll free (Canada and US): 1-800-263-0877 Conference ID: 1697009	Alternate number: 1-323-794-2094
TAPED REPLAY:	Toll free (Canada and US): 1-844-512-2921 Replay available until June 10, 2018 Replay Pin number: 1697009	Alternate number: 1-412-317-6671 Replay Pin number: 1697009
WEBCAST:	**http://public.viavid.com/index.php?id=129657**	

FORWARD-LOOKING STATEMENTS

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

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

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

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About Nanotech

Nanotech researches, creates and produces nano-optic structures and colour-shifting materials used in authentication and brand enhancement applications across a wide range of markets including banknotes, tax stamps, secure government documents, 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 lithography system, 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, the Canadian disclosure filings website www.sedar.com or the OTCMarkets disclosure filings website www.otcmarkets.com.

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