

Nanotech Announces Second Quarter Fiscal 2019 Results

Company Wins First Sale in the Brand Protection Market

VANCOUVER, British Columbia – May 9, 2019 – 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, 2019. Management will host a conference call today, May 9, 2019 at 5:00 pm Eastern (details below). Unless otherwise stated, all dollar amounts are expressed in Canadian dollars.

Second Quarter Results

- **Revenues of \$1.9 million were 3% higher compared to the same period last year.** Revenue from products and services drove the increase year over year, while revenue associated with KolourOptik® development contracts for customized banknote security features, which continues to be the majority of the Company's revenue, was largely flat year over year.
- **Gross margin was 69% versus 70% last quarter and 74% in the second quarter of 2018.** 2019 margins were negatively impacted by a lower proportion of development contract revenue in the revenue mix.
- **Adjusted EBITDA was \$45,000 for the quarter.** Although Adjusted EBITDA decreased \$88,000 from the same period last year primarily due to reduced margins in the current quarter, this was the eighth consecutive quarter of positive Adjusted EBITDA.
- **Cash and short-term investments were \$10.1 million at quarter end.** The Company finished the quarter with a strong cash position and no debt.
- **Brand protection product sale and launch.** The Company recorded its first sale to a brand protection customer during the second quarter, and on April 2, 2019 the Company launched two products specifically targeted for the commercial market: LiveLogo™ and Dynamic Portrait™. These products will allow customers to showcase their logo, tagline or products using our unique and compelling KolourOptik technology.

Fiscal Year to Date Results

- **Revenues of \$3.6 million were 10% lower compared to the same period last year.** Development contract revenue decreased in the first half of fiscal 2019 due to the timing and scope of the contracts in the current period, while revenue from products and services increased from the prior year.
- **Gross margin was 70% in the year to date period, down from 74% in the same period last year.** Overall margin was negatively impacted by a lower proportion of development contract revenue in the revenue mix.
- **Adjusted EBITDA was \$163,000 for the first half of fiscal 2019.** Adjusted EBITDA decreased \$430,000 from the same period last year due to reduced development contract revenue in the current year.

Management Commentary

"The Company continues to advance its development contracts with its primary customer, and we made progress toward incorporating a Nanotech security feature on this customer's banknotes. We have also made strides in commercializing our KolourOptik technology beyond banknotes into commercial markets with our first brand protection sale, followed by the launch of our two new products for the commercial market," said President and CEO Troy Bullock. "In the coming quarters we will continue to make significant

investments in our sales and marketing efforts as we continue to pursue commercialization in both the banknote and commercial markets.”

2019 Outlook

Management continues to believe the Company’s technology has significant potential in many markets. Successfully incorporating a security feature into a banknote is expected to lead to long-term recurring, predictable revenue. Diversification into commercial markets is also expected to grow revenues and earnings. The Company continues to work towards these goals:

- 1) **Banknote market.** The Company has two areas of focus in the banknote market:
 - **Contract development activities.** Contract development work is progressing well. The customer has narrowed the scope of development activities, which should see the Company transition from development work to delivering production level volume samples in fiscal 2020.
 - **Expand and enhance our banknote product line.** Development efforts for a new and innovative banknote product are underway with an expected launch in 2019.
- 2) **Commercial markets.** During the second quarter, the Company completed its first sale in the brand protection market and, subsequent to the end of the quarter, also launched its LiveLogo and Dynamic Portrait products, which are targeted for the commercial markets.
 - **Create a direct salesforce.** During the second quarter, Mr. Brian Donnelly joined the Company as Vice President Sales. He is focused on building out Nanotech’s sales team and growing sales.

Financial outlook. In the short-term, while management builds out its sales strategy and product offering, the Company’s financial performance may be highly variable. Our guidance for the fiscal year remains unchanged, with expected revenues of \$7.4 to \$8.3 million and an Adjusted EBITDA loss of up to \$1.0 million. The timing and scope of development contracts remains variable and increased investments in sales and product development may impact Adjusted EBITDA.

With a strong balance sheet, including \$10.1 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.

Conference Call Details

| | | |
|-------------------------|---|---------------------------------------|
| Date & Time: | Thursday, May 9, 2019 - 5:00 P.M. Eastern | |
| Dial-in number: | Toll Free: | 1-866-548-4713 |
| | Toll/International: | 1-323-794-2093 |
| Conference ID: | 8155235 | |
| Taped replay: | Toll free (Canada and US): | 1-844-512-2921 |
| | Alternate number: | 1-412-317-6671 |
| | Replay pin number: | 8155235 |
| | Replay start: | Thursday May 9, 2019, 8:00 PM Eastern |
| | Replay expiry: | Sunday June 9, 2019, 11:59 PM Eastern |
| Webcast: | http://public.viavid.com/index.php?id=134300 | |

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 | | |
|---|--------------------------------|---------------------|-------------|------------------------------|---------------------|-------------|
| | 2019 | 2018 ⁽¹⁾ | % Change | 2019 | 2018 ⁽¹⁾ | % Change |
| Revenue | \$1,915,881 | \$1,862,667 | 3% | \$3,639,758 | \$4,039,019 | (10%) |
| Gross margin | 1,328,391 | 1,380,978 | (4%) | 2,542,637 | 2,993,479 | (15%) |
| Gross margin % | 69% | 74% | | 70% | 74% | |
| Adjusted EBITDA ⁽²⁾ | 45,027 | 132,955 | (66%) | 162,658 | 592,600 | (73%) |
| Net loss | (477,006) | (284,710) | 68% | (1,608,916) | (188,890) | 752% |
| Earnings (loss) per share | | | | | | |
| Basic and diluted | (0.01) | 0.00 | | (0.02) | 0.00 | |
| Weighted average number of common shares | | | | | | |
| Basic and diluted | 68,898,584 | 68,395,825 | | 68,834,344 | 68,395,825 | |

⁽¹⁾Results for the three and six months ended March 31, 2018 have been adjusted to reflect the full retrospective application of IFRS 15 – Revenue from Contracts with Customers ("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 six months ended March 31, 2019.

⁽²⁾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, 2019 | September 30, 2018 | % Change |
|---|-------------------|-----------------------|-------------|
| Cash, cash equivalents and short-term investments | \$ 10,122,134 | \$ 9,613,621 | 5% |
| Total assets | \$ 29,085,710 | \$ 30,229,055 | (4%) |
| Total liabilities | 1,392,702 | 1,325,139 | 5% |
| Total equity | 27,693,008 | 28,903,916 | (4%) |

Financial Statements and Management's Discussion and Analysis

This news release should be read in conjunction with the Company's condensed consolidated interim financial statements and related notes, and management's discussion and analysis for the three and six months ended March 31, 2019, copies of which can be found at www.sedar.com.

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 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 | | Six months ended | |
|---|--------------------|--------------|------------------|--------------|
| | March 31 | | March 31 | |
| | 2019 | 2018 | 2019 | 2018 |
| Net loss | \$ (477,006) | \$ (284,710) | \$ (1,608,916) | \$ (188,890) |
| Finance income | (48,592) | (26,226) | (100,965) | (60,268) |
| Foreign exchange (gain) loss | 16,806 | (176,858) | (30,338) | (223,859) |
| Depreciation and amortization | 396,000 | 423,635 | 781,369 | 780,398 |
| Share-based compensation | 157,819 | 245,334 | 305,808 | 333,439 |
| Restructuring costs | - | - | 815,700 | - |
| Net income from discontinued operations | - | (48,220) | - | (48,220) |
| Adjusted EBITDA | \$ 45,027 | \$ 132,955 | \$ 162,658 | \$ 592,600 |

Nanotech Security Corp.

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

Three and six months ended March 31, 2019 and 2108

(In Canadian dollars)

| | Three months ended March 31 | | Six months ended March 31 | |
|--|--------------------------------|---------------------|------------------------------|---------------------|
| | 2019 | 2018 ⁽¹⁾ | 2019 | 2018 ⁽¹⁾ |
| Revenue | \$ 1,915,881 | \$ 1,862,667 | \$ 3,639,758 | \$ 4,039,019 |
| Cost of sales | 587,490 | 481,689 | 1,097,121 | 1,045,540 |
| | 1,328,391 | 1,380,978 | 2,542,637 | 2,993,479 |
| Expenses | | | | |
| Research and development | 402,539 | 392,489 | 738,650 | 738,676 |
| General and administration | 587,183 | 690,494 | 1,124,750 | 1,232,113 |
| Sales and marketing | 528,830 | 489,767 | 973,544 | 946,517 |
| Depreciation and amortization | 385,535 | 408,655 | 756,294 | 718,698 |
| Restructuring costs | - | - | 815,700 | - |
| | 1,904,087 | 1,981,405 | 4,408,938 | 3,636,004 |
| Loss from continuing operations before other expenses | (575,696) | (600,427) | (1,866,301) | (642,525) |
| Other (income) expense | | | | |
| Foreign exchange (gain) loss | 16,806 | (176,858) | (30,338) | (223,859) |
| Finance income | (48,592) | (26,226) | (100,965) | (60,268) |
| Tenant income | (66,904) | (64,413) | (126,082) | (121,288) |
| | (98,690) | (267,497) | (257,385) | (405,415) |
| Net loss from continuing operations | (477,006) | (332,930) | (1,608,916) | (237,110) |
| Net income from discontinued operations | - | 48,220 | - | 48,220 |
| Net loss | (477,006) | (284,710) | (1,608,916) | (188,890) |
| Other comprehensive loss: | | | | |
| Items that may be subsequently reclassified to earnings: | | | | |
| Unrealized foreign exchange loss on translation of foreign operation | - | (45,766) | - | (70,768) |
| Total comprehensive loss | \$ (477,006) | \$ (330,476) | \$ (1,608,916) | \$ (259,658) |
| Basic and diluted earnings (loss) per share: | | | | |
| Continuing operations | \$ (0.01) | \$ 0.00 | \$ (0.02) | \$ 0.00 |
| Discontinued operations | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 |
| Net income (loss) | \$ (0.01) | \$ 0.00 | \$ (0.02) | \$ 0.00 |
| Weighted average number of common shares | | | | |
| Basic and diluted | 68,898,584 | 68,395,825 | 68,834,344 | 68,395,825 |

⁽¹⁾Results for the three and six months ended March 31, 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 six months ended March 31, 2019.

Nanotech Security Corp.

Condensed Consolidated Interim Statements of Financial Position
(Unaudited)

(In Canadian dollars)

| | March 31, 2019 | September 30, 2018 |
|---|----------------------|-----------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 2,450,375 | \$ 2,014,764 |
| Short-term investments | 7,671,759 | 7,598,857 |
| Accounts receivable | 1,012,858 | 1,962,969 |
| Inventory | 189,403 | 173,636 |
| Prepaid expenses and other assets | 134,434 | 125,514 |
| | <u>11,458,829</u> | <u>11,875,740</u> |
| Property, plant and equipment | 16,238,423 | 16,964,857 |
| Goodwill | 1,388,458 | 1,388,458 |
| | <u>\$ 29,085,710</u> | <u>\$ 30,229,055</u> |
| Liabilities and Shareholders' Equity | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | \$ 1,351,607 | \$ 1,265,282 |
| Liabilities directly associated with assets held for sale | 11,227 | 16,204 |
| | <u>1,362,834</u> | <u>1,281,486</u> |
| Non-current liabilities: | | |
| Tenant inducement | 29,868 | 43,653 |
| | <u>1,392,702</u> | <u>1,325,139</u> |
| Shareholders' equity | | |
| Share capital | 62,080,465 | 61,892,395 |
| Contributed surplus | 3,140,902 | 2,930,964 |
| Deficit | (37,528,359) | (35,919,443) |
| | <u>27,693,008</u> | <u>28,903,916</u> |
| | <u>\$ 29,085,710</u> | <u>\$ 30,229,055</u> |

Nanotech Security Corp.

Condensed Consolidated Interim Statements of Cash Flows
(Unaudited)

Three and six months ended March 31, 2019 and 2018
(in Canadian Dollars)

| | Three months ended March 31 | | Six months ended March 31 | |
|---|--------------------------------|---------------|------------------------------|---------------|
| | 2019 | 2018 | 2019 | 2018 |
| Cash flows provided by (used in): | | | | |
| Operating activities: | | | | |
| Net loss from continuing operations | \$ (477,006) | \$ (332,930) | \$ (1,608,916) | \$ (237,110) |
| Items not involving cash: | | | | |
| Depreciation and amortization | 396,000 | 423,635 | 781,369 | 780,398 |
| Share-based compensation | 250,019 | 245,334 | 398,008 | 333,439 |
| Interest income | (50,661) | (28,149) | (105,107) | (64,299) |
| Other | (9,582) | (8,537) | (13,223) | (15,217) |
| Non-cash working capital changes | (929,342) | (78,656) | 986,790 | (499,120) |
| Interest received | 16,003 | 29,794 | 59,818 | 65,731 |
| | (804,569) | 250,491 | 498,739 | 363,822 |
| Net cash provided by (used in) | | | | |
| discontinued operations | (4,925) | 2,307 | (4,977) | 97,636 |
| Cash provided by (used in) operating activities | (809,494) | 252,798 | 493,762 | 461,458 |
| Investing activities: | | | | |
| Purchase of property and equipment | (22,366) | (819,366) | (29,976) | (987,907) |
| Net acquisition of short-term investments | (3,239) | - | (28,175) | - |
| Cash used in investing activities | (25,605) | (819,366) | (58,151) | (987,907) |
| Effect of foreign exchange on cash and cash equivalents | | | | |
| | - | (45,643) | - | (70,768) |
| Increase (decrease) in cash and cash equivalents | (835,099) | (612,211) | 435,611 | (597,217) |
| Cash and cash equivalents, beginning of period | 3,285,474 | 10,898,913 | 2,014,764 | 10,883,919 |
| Cash and cash equivalents, end of period | \$ 2,450,375 | \$ 10,286,702 | \$ 2,450,375 | \$ 10,286,702 |

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, 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.

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, 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.

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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