

## Nanotech Announces Third Quarter Fiscal 2020 Results

**VANCOUVER, British Columbia – August 6, 2020** – Nanotech Security Corp. (TSXV: NTS) (OTCQX: NTSFF) ("Nanotech" or the "Company"), a leader in the development of secure and memorable nano-optic security features used in the government and banknote and brand protection markets, today released its financial results for the three and nine months ended June 30, 2020. Management will host a conference call today at 5:00 pm Eastern (details below). Unless otherwise stated, all dollar amounts are expressed in Canadian dollars.

### Highlights

#### Financial Results

- Generated positive Adjusted EBITDA of \$197,733 for the third quarter of 2020 as a result of strong revenue and margin performance.
- Management anticipates annual revenue growth of 10 to 20% in fiscal 2020 despite some product order deferrals due to COVID-19.
- Nanotech remains well-positioned with cash and short-term investments of \$8.7 million at quarter end with no debt.

#### Product Revenue

- Three customer product orders were delivered in the quarter, bringing the year to date total to 15 (compared to 14 in the full year ended 2019 and two in the full year ended 2018).
- Product revenue increased to \$450,808 and \$817,205 for the three and nine months ended June 30, 2020, respectively, compared to \$150,180 and \$319,435 during the same period last year.

#### Contract Services Revenue

- On an annual basis, management expects growth over the prior year due to strong contract services revenue forecasted for the fourth quarter of 2020, along with opportunities for further upside.
- Contract services revenue decreased to \$1,495,812 and \$3,983,857 for the three and nine months ended June 30, 2020, respectively, compared to \$1,677,159 and \$4,633,580 during the same period last year.

"I am pleased with our strong financial performance this quarter, particularly in the context of the global pandemic. Our team has demonstrated a commitment to safely operating in this environment and we are fortunate to have experienced minimal disruption to our business," said Nanotech's President and CEO Troy Bullock. "This has also allowed us to continue to execute on our strategy to transition Nanotech from a research and development company to a diversified product-based company. I am excited about the progress we are making on our product development and marketing strategies to set the Company up for long-term success."

### Strategic Update

The Company is pursuing future revenue growth by focusing on product sales opportunities in the government and banknote market and in the brand protection market. To achieve this, management previously established the following targets for fiscal 2020:

- **Revenue diversification.** Increase product revenue by generating sales of nano-optic products, expanding product lines, and pursuing further growth opportunities for LumaChrome™ colour-shifting film.

In the nine months ended June 30, 2020, Nanotech recorded product revenue from 15 delivered customer orders, compared to 14 for the full year 2019. These orders were predominantly for LumaChrome and included film for one new banknote and one new government ID application. In addition, the Company worked with several partners to qualify its LumaChrome product on four new banknote opportunities. Bidding on some of these new opportunities was delayed due to COVID-19, however the Company did deliver recurring LumaChrome orders in the third quarter of 2020. Nanotech has invested over \$1.5 million to expand and upgrade its Thurso manufacturing facility, which includes modifications to LumaChrome production equipment and additional equipment, in order to accommodate future growth.

In the brand protection market, the Company won two reference customers in the first half of 2020, including a sale in the licensing vertical to the World Baseball Softball Confederation and a product order for approximately 7.0 million labels in a confidential brand protection application. The Company also worked with a partner to deliver film for a new commercial application and expanded its brand protection product offering with the launch of LumaChrome into the brand protection market.

- **Develop strategic sales relationships.** *Expand the Company's sales reach by partnering with more established OEMs to promote Nanotech's products to their existing customer bases.*

The Company made significant progress in strengthening its sales partnerships in the first half of fiscal 2020. In the brand protection market, management partnered with two United States channel partners who are now marketing Nanotech's LiveOptik™ products. In the government and banknote market, management is working with a key OEM partner to design a marketing housenote to enable this partner to begin marketing KolourOptik® products. Although the COVID-19 pandemic slowed down some sales partnership discussions at the beginning of the third quarter, activity has renewed and management is pleased with the progress of ongoing discussions.

- **Develop strategic manufacturing and product partnerships.** *Partner with select manufacturers that have a proven track record of excellence to reduce the manufacturing risk associated with scaling product sales and to expand the Company's product lines.*

The Company has partnered with a large OEM partner to produce LiveOptik products for the brand protection market. Nanotech's product features have expanded to include foils, labels, QR codes, and track and trace capability as a result of its manufacturing partnerships. Outsourcing LiveOptik manufacturing also enables the Company to focus on its core capabilities in technology development.

In the government and banknote market, management is in the process of qualifying a world class OEM manufacturing partner for its KolourDepth™ products and is on track to have it completed during the fourth quarter.

## **Outlook**

Management's commercialization strategy has shown great progress as the Company continues to expand its product lines for both the government and banknote and brand protection markets. In the government and banknote market there is serious interest in Nanotech's KolourOptik and LumaChrome OTF products, and the ongoing development contract is progressing well. The Company entered the brand protection market approximately one year ago and has already gained strong reference customer wins and continues to build a solid pipeline of opportunities. The overall growth in product revenue demonstrates that Nanotech's commercialization strategy is gaining traction.

Although the COVID-19 pandemic has not significantly impacted Nanotech's ability to deliver to customers, the sales team experienced a general slowdown in access to customers at the outset of the pandemic as well as a tendency for customers to defer ordering decisions. As a result, management estimates approximately \$2.0 million in opportunities from the pipeline were deferred to fiscal 2021. However, due to the success of Nanotech's commercialization strategy in the first half of 2020, recurring LumaChrome sales, and projected growth in contract services revenue in the fourth quarter of 2020, management is still anticipating annual revenue growth to be in the 10 to 20% range.

The Company continues to invest in its product and marketing teams and initiatives to expand Nanotech's market reach. To date these investments include rebranding the Company and its products, launching a new website, significantly increasing marketing materials, increasing lead generation activities, and increasing sales activity around several key customers. During the third quarter, the Company also announced the appointment of Andrew Green as Executive Vice President, Product. As the new leader of the product management and research and development teams, Mr. Green will help accelerate Nanotech's products-based growth strategy.

The investments outlined above to grow future revenue have led to Adjusted EBITDA losses for the year to date. However, given strong revenue growth, management is improving its guidance from a targeted adjusted EBITDA loss of \$1 million to a loss of \$500,000. With a strong balance sheet, including \$8.7 million in cash and short-term investments and no debt, the Company is well positioned to continue to pursue its product-based sales and marketing strategies in 2020.

**Conference Call Details**

<b>Date &amp; Time:</b>	Thursday, August 6, 2020 - 5:00 P.M. Eastern	
<b>Dial-in number:</b>	Toll Free (Canada and US):	1-877-839-4020
	Toll/International:	1-604-638-5340
<b>Taped replay:</b>	Toll free (Canada and US):	1-800-319-6413
	Toll/International:	1-604-638-9010
	Replay pin number:	4848
	Replay start:	Thursday, August 6, 2020, 8:00 PM Eastern
	Replay expiry:	Sunday, September 6, 2020, 11:59 PM Eastern
<b>Webcast:</b>	<a href="http://services.choruscall.ca/links/nanosecurity20200806.html">http://services.choruscall.ca/links/nanosecurity20200806.html</a>	

**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 June 30			Nine months ended June 30		
	2020	2019 <sup>(1)</sup>	% Change	2020	2019 <sup>(1)</sup>	% Change
Contract services	\$ 1,495,812	\$ 1,677,159	(11%)	\$ 3,983,857	\$ 4,633,580	(14%)
Products and services	450,808	150,180	200%	817,205	319,435	156%
Revenue	1,946,620	1,827,339	7%	4,801,062	4,953,015	(3%)
Gross margin	1,609,798	1,332,006	21%	3,907,021	3,778,783	3%
Gross margin%	83%	73%		81%	76%	
Adjusted EBITDA <sup>(2)</sup>	197,733	(77,406)	355%	(621,245)	(136,690)	354%
Net loss	(332,367)	(521,490)	(36%)	(2,088,190)	(2,130,406)	(2%)
Loss per share						
Basic and diluted	(0.00)	(0.01)		(0.03)	(0.03)	
Weighted average number of common shares						
Basic and diluted	69,200,125	68,959,001		69,200,125	68,875,897	

<sup>(1)</sup> Results for the three and nine months ended June 30, 2019 have been adjusted to reflect the full retrospective application of IFRS 15, which was adopted October 1, 2018. For further information, see note 2(a) of the condensed interim financial statements for the three and nine months ended June 30, 2020.

<sup>(2)</sup> Adjusted EBITDA is a non-IFRS measure as described in the Non-IFRS Financial Measures section of this News Release. The calculation of Adjusted EBITDA has been amended this quarter to exclude tenant and steam (income) expenses, which are no longer expected to be recurring in nature. For further information, see the Quarterly Results section of management's discussion and analysis for the three and nine months ended June 30, 2020.

Financial Position as at:	June 30, 2020	September 30, 2019	% Change
Cash, cash equivalents and short-term investments	\$ 8,713,544	\$ 10,289,264	(15%)
Total assets	\$ 27,557,570	\$ 28,523,244	(3%)
Total liabilities	2,567,669	1,791,610	43%
Total equity	24,989,901	26,731,634	(7%)

### **Equity Grant**

The Board of Directors has approved for grant 300,000 stock options to Andrew Green, Executive Vice President, Product. These options will be granted subsequent to the end of the Company's trading blackout at market price, subject to customary regulatory approval and vesting conditions. The options are exercisable for five years.

### **Financial Statements and Management's Discussion and Analysis**

This news release should be read in conjunction with the Company's condensed interim financial statements and related notes, and management's discussion and analysis for the three and nine months ended June 30, 2020, copies of which can be found at [www.sedar.com](http://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 calculation of Adjusted EBITDA has been amended this quarter to exclude tenant and steam (income) expenses, which are no longer expected to be recurring in nature.

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, tenant income, steam (income) expense and restructuring costs. 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, 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		Nine months ended	
	June 30		June 30	
	2020	2019	2020	2019
Net loss	\$ (332,367)	\$ (521,490)	\$ (2,088,190)	\$ (2,130,406)
Finance income	(18,854)	(49,343)	(80,460)	(150,308)
Foreign exchange (gain) loss	45,243	32,798	(24,216)	2,460
Depreciation and amortization	400,354	386,496	1,207,195	1,167,865
Share-based compensation	103,357	168,904	346,457	474,712
Restructuring costs	-	-	-	815,700
Tenant income	-	(58,626)	(56,276)	(184,708)
Steam (income) expense	-	(36,145)	74,245	(132,005)
Adjusted EBITDA	\$ 197,733	\$ (77,406)	\$ (621,245)	\$ (136,690)

## Nanotech Security Corp.

Condensed Interim Statements of Operations and Comprehensive Loss  
(Unaudited)

Three and nine months ended June 30, 2020 and 2019  
(In Canadian dollars)

	Three months ended June 30		Nine months ended June 30	
	2020	2019 <sup>(1)</sup>	2020	2019 <sup>(1)</sup>
Revenue	\$ 1,946,620	\$ 1,827,339	\$ 4,801,062	\$ 4,953,015
Cost of sales	336,822	495,333	894,041	1,174,232
	1,609,798	1,332,006	3,907,021	3,778,783
<b>Expenses</b>				
Research and development	438,201	416,722	1,396,229	1,155,372
General and administration	556,619	613,740	1,753,989	1,738,490
Sales and marketing	532,018	563,373	1,769,761	1,536,917
Depreciation and amortization	388,938	370,977	1,161,939	1,127,271
Restructuring costs	-	-	-	815,700
	1,915,776	1,964,812	6,081,918	6,373,750
Loss from operations before other (income) expenses	(305,978)	(632,806)	(2,174,897)	(2,594,967)
Other (income) expenses				
Foreign exchange (gain) loss	45,243	32,798	(24,216)	2,460
Finance income	(18,854)	(49,343)	(80,460)	(150,308)
Tenant income	-	(58,626)	(56,276)	(184,708)
Steam (income) expense	-	(36,145)	74,245	(132,005)
	26,389	(111,316)	(86,707)	(464,561)
<b>Net loss and total comprehensive loss</b>	<b>\$ (332,367)</b>	<b>\$ (521,490)</b>	<b>\$ (2,088,190)</b>	<b>\$ (2,130,406)</b>
Basic and diluted loss per share:				
Net loss	\$ (0.00)	\$ (0.01)	\$ (0.03)	\$ (0.03)
Weighted average number of common shares				
Basic and diluted	69,200,125	68,959,001	69,200,125	68,875,897

<sup>(1)</sup> Results for the three and nine months ended June 30, 2019 have been adjusted to reflect the full retrospective application of IFRS 15, which was adopted October 1, 2018. For further information, see note 2(a) of the condensed interim financial statements for the three and nine months ended June 30, 2020.

## Nanotech Security Corp.

Condensed Interim Statements of Financial Position  
(Unaudited)

(In Canadian dollars)

	June 30, 2020	September 30, 2019
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 1,069,358	\$ 2,752,002
Short-term investments	7,644,186	7,537,262
Accounts receivable	799,038	503,660
Inventory	232,843	237,264
Prepaid expenses and other assets	178,691	419,753
	<u>9,924,116</u>	<u>11,449,941</u>
Property, plant and equipment	15,335,551	15,684,845
Goodwill	1,388,458	1,388,458
Right-of-use asset	909,445	-
	<u>\$ 27,557,570</u>	<u>\$ 28,523,244</u>
<b>Liabilities and Shareholders' Equity</b>		
<b>Current liabilities:</b>		
Accounts payable and accrued liabilities	\$ 1,415,110	\$ 1,232,159
Deposit	89,772	543,368
Deferred revenue	82,500	-
Current portion of lease liability	170,250	-
	<u>1,757,632</u>	<u>1,775,527</u>
<b>Non-current liabilities:</b>		
Tenant inducement	-	16,083
Lease liability	810,037	-
	<u>2,567,669</u>	<u>1,791,610</u>
<b>Shareholders' equity</b>		
Share capital	62,355,479	62,355,479
Contributed surplus	3,477,309	3,130,852
Deficit	(40,842,887)	(38,754,697)
	<u>24,989,901</u>	<u>26,731,634</u>
	<u>\$ 27,557,570</u>	<u>\$ 28,523,244</u>

## Nanotech Security Corp.

Condensed Interim Statements of Cash Flow

(Unaudited)

Three and nine months ended June 30, 2020 and 2019

(In Canadian dollars)

	Three months ended June 30		Nine months ended June 30	
	2020	2019	2020	2019
Cash flows provided by (used in):				
Operating activities:				
Net loss	\$ (332,367)	\$ (521,490)	\$ (2,088,190)	\$ (2,130,406)
Items not involving cash:				
Depreciation and amortization	400,354	386,496	1,207,195	1,167,865
Share-based compensation	103,357	168,904	346,457	566,912
Unrealized foreign exchange gain (loss)	49,975	(33,918)	13,555	(16,694)
Finance income	(18,854)	(49,343)	(80,460)	(150,308)
Other	(3,132)	(6,786)	(9,233)	(24,151)
Non-cash working capital changes	(324,412)	(461,992)	(164,521)	547,374
Interest paid on lease liability	(11,278)	-	(34,000)	-
Interest received	34,862	125,833	120,720	185,651
	(101,946)	(392,296)	(688,477)	146,243
Net cash used in discontinued operations	-	(434)	-	(5,411)
Cash provided by (used in) operating activities	(101,946)	(392,730)	(668,477)	140,832
Investing activities:				
Purchase of property and equipment	(304,652)	(63,527)	(769,071)	(111,433)
Disposal of short-term investments	-	203,314	-	203,314
Net acquisition of short-term investments	(33,301)	(108,146)	(103,951)	(136,321)
Cash used in investing activities	(337,953)	31,641	(873,022)	(44,440)
Financing activities:				
Repayment of lease liability	(34,420)	-	(103,259)	-
Cash used in financing activities	(34,420)	-	(103,259)	-
Effect of foreign exchange on cash and cash equivalents	(61,734)	22,337	(17,886)	467
Increase (decrease) in cash and cash equivalents	(536,053)	(338,752)	(1,682,644)	96,859
Cash and cash equivalents, beginning of period	1,605,411	2,450,375	2,752,002	2,014,764
Cash and cash equivalents, end of period	\$ 1,069,358	\$ 2,111,623	\$ 1,069,358	\$ 2,111,623

## 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, the Company's views that its optics-based technologies will continue to show promise for large-scale production, and the potential impacts of the COVID-19 pandemic on the Company's operations. 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, as well as risks relating to the COVID-19 pandemic.

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, 2019, 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

With billions of security features in circulation, Nanotech's products include secure and memorable security labels, stripes, patches, and colour-shifting films for currency authentication and brand protection.

KolourOptik® is a patented technology that is exclusive to the government and banknote market and combines sub-wavelength nanostructures and microstructures to create modern overt security features with a unique and customizable visual effect. KolourOptik pure plasmonic colour pixels produce full colour, 3D depth, and movement used in security stripes and threads that are nearly impossible to replicate. At less than 5 microns thick, KolourOptik products seamlessly integrate into banknotes and other secure government documents.

LiveOptik™ is a patented technology that utilizes innovative nano-optics one tenth the size of traditional holographic structures to create next generation overt security features customized to customers' unique requirements. LiveOptik delivers multi-colour, 3D depth, movement, and image switches for secure brand protection stripes, threads, and labels that are nearly impossible to replicate.

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.otcmarkets.com](http://www.otcmarkets.com).

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