NANOTECH

June 30, 2020

QUARTERLY REPORT

For purposes of this management's discussion and analysis ("MD&A"), "Nanotech", the "Company", "we", or "us" refers to Nanotech Security Corp. This quarter or the current quarter means the quarter ended June 30, 2020. Year to date means the nine months ended June 30, 2020.

ADVISORY

This MD&A, dated August 6, 2020, should be read in conjunction with the cautionary statement regarding forward-looking statements below and the Company's condensed interim financial statements for the three and nine months ended June 30, 2020 as well as with the Company's audited consolidated financial statements and MD&A for the year ended September 30, 2019. The results reported herein have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and are presented in Canadian dollars. All quarterly information disclosed in this MD&A is unaudited.

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

FORWARD-LOOKING STATEMENTS

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

These forward-looking statements include, without limitation, statements about the Company's market opportunities, strategies, competition, 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 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 related 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 this discussion and analysis of the financial conditions and results of operations or the documents incorporated by reference, are qualified by this cautionary statement and there can be no certainty that actual results or developments the Company anticipates will be realized. For additional information with respect to certain of these risks or factors reference should be made to the "Business Risks and Uncertainties" section of the MD&A and the notes to the audited consolidated financial statements for the year ended September 30, 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. Nanotech disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, other than as required by law. Caution needs to be used when taking forward-looking statements into account when evaluating the Company.

GENERAL OVERVIEW

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

Nanotech researches, creates, and produces nano-optic structures and colour-shifting materials used in authentication and brand protection applications across a wide range of markets including banknotes, secure government documents, and commercial branding. The Company's technology platforms include:

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

RESULTS OF OPERATIONS

Select financial information for the three and nine months ended June 30, 2020 and 2019:

Select Financial Information	Three months ended June 30 2020	Three months ended June 30 2019[1]	Nine months ended June 30 2020	Nine months ended June 30 2019[1]
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
Expenses				
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	26,389	(111,316)	(86,707)	(464,561)
Net loss	$ (332,367)	$ (521,490)	$ (2,088,190)	$ (2,130,406)
Adjusted EBITDA[2]	$ 197,733	$ (77,406)	$ (621,245)	$ (136,690)

[1]Results for the three and nine months ended June 30, 2019 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 2(a) of the condensed interim financial statements for the three and nine months ended June 30, 2020.

[2]Adjusted EBITDA is a non-IFRS measure as described in the Non-IFRS Financial Measures section of this MD&A. 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 Other Income and Quarterly Results sections of this MDA.

Revenue

The Company currently derives a majority of its revenue from contract services with a G10 central bank. During the year ended September 30, 2017, the Company disclosed a development contract for up to $30.0 million over a period of up to five years. These contract services incorporate both nano-optic and optical thin film technologies and are focused on developing authentication features for future banknotes. While the Company is progressing toward the goal of incorporating a Nanotech security feature on this customer's banknote, there is inherent variability in the timing and scope of contract services. Revenues from this customer declined $181,347 or 11% in the three months ended June 30, 2020 compared to the same period last year. For the nine months ended June 30, 2020, revenues from this customer declined by $649,723 or 14% compared to the same period last year.

Total revenue for the three months ended June 30, 2020 increased by $119,281 or 7% to $1,946,620, compared to $1,827,339 in the same period last year, due to higher product revenue partially offset by a decrease in contract services in the current period.

Total revenue for the nine months ended June 30, 2020 decreased by $151,953 or 3% to $4,801,062, compared to $4,953,015 in the same period last year primarily due to reduced development contract revenue in the current period, partially offset by increased product revenue. Product revenue increased by $497,770 or 156% as the Company delivered 15 product sales in the current period compared to seven in the same period last year.

Gross Margin

Gross margin for the three months ended June 30, 2020 increased by $277,792 or 21% to $1,609,798, compared to $1,332,006 in the same period last year as a result of the increase in total revenue. The gross margin percentage was 83% for the three months ended June 30, 2020, up from 73% in the same period last year. This increase was primarily due to higher margins on contract services in combination with strong product margins in the current quarter.

Gross margin for the nine months ended June 30, 2020 increased by $128,238 or 3% to $3,907,021, compared to $3,778,783 in the same period last year as a result of the reduction in total cost of sales. The gross margin percentage was 81% for the nine months ended June 30, 2020, up from 76% in the same period last year primarily due to higher margins on contract services in the current period.

Research and Development

Research and development expenditures for the three and nine months ended June 30, 2020 were $438,201 and $1,396,229 respectively, compared to $416,722 and $1,155,372 in the same period last year. These increases were primarily due to increased patent expenditures, professional fees related to the Thurso facility, and preventive maintenance costs. These cost increases were partially offset by payroll subsidies received under the Canada Emergency Wage Subsidy COVID-19 program that reduced salary expense in the current period.

General and Administration

General and administration expenditures for the three months ended June 30, 2020 were $556,619, a decrease of $57,121 or 9%, compared to $613,740 in the same period last year. The decrease was primarily due to decreased share-based compensation, as well as reduced rent expense as the Company transitioned to new lease accounting under IFRS 16 - *Leases* ("IFRS 16") in fiscal 2020, partially offset by higher salary and insurance expenses.

General and administration expenditures for the nine months ended June 30, 2020 were $1,753,989, consistent with $1,738,490 in the same period last year.

Sales and Marketing

Sales and marketing expenditures for the three months ended June 30, 2020 were $532,018, a decrease of $31,355 or 6%, compared to $563,373 in the same period last year. This decrease was related to lower travel and conference costs in the COVID-19 environment. These cost reductions were partially offset by higher salaries and benefits expense in the current period, as the Company has expanded its product and marketing teams compared to the prior year.

Sales and marketing expenditures for the nine months ended June 30, 2020 were $1,769,761, an increase of $232,844 or 15%, compared to $1,536,917 in the same period last year. The increase was related to higher salaries and benefits expense as well as increased professional fees and pre-pandemic conference expenses in the current period, partially offset by reduced travel costs.

Depreciation and Amortization

Depreciation and amortization expenditures for the three and nine months ended June 30, 2020 were $388,938 and $1,161,939 respectively, compared to $370,977 and $1,127,271 respectively in the same period last year, which reflects the additional depreciation recorded for right-of-use leased assets and other capital asset additions related to the expansion of the Thurso facility, partially offset by reduced depreciation under the Company's declining balance depreciation method.

Restructuring Costs

On December 21, 2018, the Board implemented an executive transition plan, under which Mr. Doug Blakeway, the former CEO, transitioned his responsibilities to Mr. Troy Bullock. Under the terms of this transition plan, Mr. Blakeway's executive services consulting agreement was terminated, triggering termination benefits as laid out in the agreement: two years base salary, a pro-rated performance bonus, and vesting of all outstanding share-based awards. The Company incurred restructuring costs of $815,700 for the nine month period ended June 30, 2019, of which $92,200 represented share-based compensation related to the accelerated vesting of Mr. Blakeway's restricted share units ("RSUs").

In January 2019, termination benefits were paid and 187,500 shares were issued to Mr. Blakeway upon vesting of his RSUs. There are no restructuring costs accrued as at June 30, 2020 (September 30, 2019 - $84,375).

Other Income

Other expense for the three months ended June 30, 2020 was $26,389, a decrease of $137,705 compared to other income of $111,316 in the same period last year. Other income for the nine months ended June 30, 2020 was $86,707, a decrease of $377,854 compared to other income $464,561 in the same period last year.

The decrease in both periods was primarily due to a reduction in tenant and steam income, as the tenant renting warehouse space in the Company's Thurso facility filed for CCAA protection, resulting in a write down of certain tenant and steam receivables. The tenant and steam agreements were terminated during the second quarter of 2020, and the Company may not recognize tenant or steam income moving forward. Interest expense recorded in the current periods also increased as a result of the transition to new lease accounting under IFRS 16.

Adjusted EBITDA

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. See the Quarterly Results section of this MDA for the revised historical figures on a quarterly basis.

Adjusted EBITDA for the three months ended June 30, 2020 was positive $197,733, compared to negative $77,406 during the same period last year. The increase was primarily due to increased revenue and higher profit margins in the current period in combination with decreased general and administration expenses and sales and marketing expenses.

Adjusted EBITDA for the nine months ended June 30, 2020 was negative $621,245, compared to negative $136,690 during the same period last year. The increase in Adjusted EBITDA loss was primarily due to decreased revenue in the current year in combination with increased research and development expenses and sales and marketing expenses as the Company continued to invest in its product and marketing strategies.

Net Loss

Net loss for the three months ended June 30, 2020 was $332,367, compared to net loss of $521,490 during the same period last year. The decrease in net loss was primarily due to increased revenue in combination with higher profit margins, partially offset by a reduction in other income in the current period.

Net loss for the nine months ended June 30, 2020 was $2,088,190, compared to net loss of $2,130,406 in the same period last year. The decrease in net loss was primarily due to increased profit margin in the current period and the decrease in one time restructuring costs related to the executive transition in fiscal 2019, partially offset by a reduction in other income.

QUARTERLY RESULTS

	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018
($ thousands, except per share data)								
Revenue[1]	$1,947	$1,385	$1,470	$1,450	$1,827	$1,594	$1,532	$3,000
Net income (loss) from continuing operations	(332)	(973)	(782)	(705)	(521)	(477)	(1,132)	770
Net income (loss)	(332)	(973)	(782)	(705)	(521)	(477)	(1,132)	770
Adjusted EBITDA[2]	198	(567)	(252)	(263)	(77)	(74)	14	1,222
Basic earnings (loss) per share:								
Continuing operations	(0.00)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.02)	0.01
Net income (loss)	(0.00)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.02)	0.01
Diluted earnings (loss) per share:								
Continuing operations	(0.00)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.02)	0.01
Net income (loss)	(0.00)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.02)	0.01

[1]Reflects 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.

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

Revenue and Adjusted EBITDA were impacted by the timing and scope of contract services and the timing of recurring LumaChrome orders in the quarters presented. There is inherent variability in contract revenue with government organizations and in the receipt of recurring LumaChrome orders. Net income (loss) from continuing operations and net income (loss) were further affected by restructuring costs in the first quarter of 2019. There are no seasonal effects in the Company's business over the quarters presented.

RELATED PARTY TRANSACTIONS

For the three and nine months ended June 30, 2020 and 2019, the Company had no transactions with related parties as defined in IAS 24 – *Related Party Disclosures*, except those pertaining to transactions with key management personnel in the ordinary course of their employment, or as disclosed below.

(a) *Remuneration of key management personnel*

	Three months ended June 30		Nine months ended June 30	
	2020	2019	2020	2019
Salaries, accrued bonuses, employee benefits and director fees	$ 178,278	$ 150,344	$ 566,166	$ 456,276
Share-based payments	60,972	60,343	201,098	222,935
Restructuring costs	-	-	-	815,700
	$ 239,250	$ 210,687	$ 767,264	$ 1,494,911

(b) As at June 30, 2020, amounts owing to directors for director fees and expense reimbursements included in accounts payable and accrued liabilities were $39,971 (September 30, 2019 - $47,622).

(c) As at June 30, 2020, amounts owing to a company controlled by a director of the Company included in accounts payable and accrued liabilities were $nil (September 30, 2019 - $84,375). The payables as at September 30, 2019 represent amounts owed upon the termination of an executive services consulting agreement.

(d) Legal and professional fees, taxes and disbursements totaling $nil for the three and nine months ended June 30, 2020 (June 30, 2019 - $4,658 and $40,912 for the three and nine months respectively) were incurred with a law firm of which a director of the Company was at the time a partner.

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

LIQUIDITY AND CAPITAL RESOURCES

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

Summary of Statements of Cash Flows

	Three months ended June 30		Nine months ended June 30	
	2020	2019	2020	2019
Cash provided by (used in) continuing operations	$ (101,946)	$ (392,296)	$ (688,477)	$ 146,243
Cash used in discontinued operations	-	(434)	-	(5,411)
Cash provided by (used in) operating activities	(101,946)	(392,730)	(688,477)	140,832
Cash (used in) provided by investing activities	(337,953)	31,641	(873,022)	(44,440)
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
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

Operating Activities

Cash used in operating activities was $101,946 for the three months ended June 30, 2020, compared to cash used in operating activities of $392,730 for the same period last year. The decrease in cash used in operating activities reflects the underlying improvement in revenue and margins that boosted operating results in the current period.

Cash used in operating activities was $688,477 for the nine months ended June 30, 2020, compared to cash provided by operating activities of $140,832 for the same period last year. The Company used more cash to fund operations in the current year as a result of management's strategic decision to invest in its product and marketing strategy in order to generate future revenue, which reduced the Company's profitability in the short term.

In 2017, the directors of the Company made the determination to pursue the sale of its subsidiary, Tactical Technologies Inc. ("Tactical"), to a third party. Tactical was classified as a separate disposal group held for sale and as a discontinued operation. On June 29, 2018, the assets used in connection with Tactical's surveillance equipment and van conversion business were sold to an employee of Tactical for a nominal amount, and on September 28, 2018, Tactical was wound up and struck from the corporate register. The cash flows for the three and nine month periods ended June 30, 2019 includes the effects of extinguishment of remaining liabilities pursuant to the disposal.

Investing Activities

Cash used in investing activities for the three and nine months ended June 30, 2020 was $337,953 and $873,022, compared to $31,641 provided by and $44,440 used in during the same period last year. In 2020, the Company expanded its manufacturing footprint within the Thurso production facility, added new equipment, and modified certain equipment to enhance the Company's production capabilities, resulting in an increase in capital expenditures compared to the same periods in the prior year. By contrast, in the three months ended June 30, 2019, the Company recorded cash from investments related to the net disposal of short-term investments.

Financing Activities

Cash used in financing activities for the three and nine months ended June 30, 2020 was $34,420 and $103,259, which represents the payment of the lease liability recorded upon adoption of IFRS 16.

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. Nanotech's principal cash requirements are for operations, working capital, and capital expenditures.

The Company's officers are responsible for managing the Company's capital and do so through quarterly meetings and regular review of financial information. The Board of Directors is responsible for overseeing this process. In managing its capital, the Company considers changes in economic conditions, risks that impact operations, and future significant capital investment opportunities. For the three and nine months ended June 30, 2020, there were no changes in Nanotech's approach to capital management. Management will continue to safeguard liquid assets in the short-term to weather the COVID-19 pandemic, while also making capital and other investments required for the long-term operation of the business. The Company is well-positioned with liquid assets of $8.7 million at quarter end and no debt.

The Company's liquid assets were as follows:

	June 30, 2020	September 30, 2019
Cash	$ 848,915	$ 752,911
Cash equivalents	220,443	1,999,091
Short-term investments	7,644,186	7,537,262
	$ 8,713,544	$ 10,289,264

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

The Company had commitments of $1,010,985 as at June 30, 2020, primarily for equipment purchases, operating costs in respect of leased office space, and contracted equipment maintenance. Management has reviewed its projected funding requirements for the next twelve months and expects that, through the generation and collection of revenues, the Company will maintain sufficient liquidity to meet its requirements.

Non-IFRS Financial Measures

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

The 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. See the Quarterly Results section of this MDA for the revised historical figures on a quarterly basis.

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 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, liquidity or cash flows. The Company's method of calculating these measures may differ from methods used by other entities and accordingly Nanotech's measures may not be comparable to similarly titled measures used by other entities or in other jurisdictions. The Company uses these measures because it believes they provide useful information to both management and investors with respect to the operating and financial performance of the Company.

	Three months ended June 30		Nine months ended June 30	
	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)

Financial Instruments

The Company considers the management of financial risk to be an important part of its overall corporate risk management policy. The nature and extent of risks arising from financial instruments and their related risk management are described in note 13 of the consolidated financial statements for the year ended September 30, 2019. In the three and nine months ended June 30, 2020, there was no material change to the nature of the risks arising from Nanotech's classification of financial instruments or related risk management objectives. Management is monitoring the impact of COVID-19 on credit risk and will mitigate any increased customer-specific risk with either credit insurance or prepayment, where appropriate.

CAPITAL STRUCTURE AND OUTSTANDING SHARE DATA

The Company maintains an equity incentive plan consisting of a stock option plan and an RSU plan to grant options and RSUs to eligible participants. The obligations under the RSU plan can be settled at the Company's discretion through either cash or issuance of common shares. The Company intends to settle the obligation through the issuance of common shares.

	June 30, 2020		September 30, 2019	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Common shares outstanding	69,200,125		69,200,125	
Options				
Outstanding	4,484,450	$ 0.71	3,535,000	$ 0.95
Exercisable	3,384,950	$ 0.82	2,628,750	$ 1.05
RSUs				
Outstanding	483,819	N/A	225,502	N/A

As at August 6, 2020, the Company has 69,200,125 common shares issued and outstanding. There are no preferred shares issued and outstanding.

SIGNIFICANT ACCOUNTING POLICIES

IFRS 16 – Leases

In January 2016, the IASB issued IFRS 16 – *Leases*, which supersedes IAS 17 – *Leases*. IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases. The standard establishes a single model for lessees to bring leases on balance sheet while lessor accounting remains largely unchanged and retains the finance and operating lease distinctions. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. The Company adopted the standard on October 1, 2019, using the modified retrospective approach. The modified retrospective approach applies the requirements of the standard retrospectively with the cumulative effects of initial application recorded in opening accumulated deficit as at October 1, 2019, and no restatement of the comparative period.

On October 1, 2019, the Company had two real estate leases which were impacted by the adoption of the standard. The Company recognized right-of-use assets of $780,767, net of tenant inducements of $35,001, and lease liabilities of $815,768 related to these leases. The right-of-use assets are depreciated on a straight-line basis over the remaining lease term. The lease liability is carried at amortized cost with a finance charge recorded using the effective interest rate method. The depreciation expense of the right-of-use assets and the finance charge of the lease liability partially replaced the lease-related expenses recorded in general and administration expense. In relation to the leases under IFRS 16, the Company recognized depreciation expense of $47,041 and $139,100 and finance costs of $11,278 and $34,000 for the three and nine months ended June 30, 2020 respectively, compared to general and administration expense of $51,710 and $155,131 for the three and nine months ended June 30, 2019 respectively.

On November 6, 2019, the Company signed a lease extension and modification agreement to combine its two leases and extend the term to April 30, 2025. As required by IFRS 16, the Company remeasured the lease liability by discounting the revised lease payments using an incremental borrowing rate of 4.5% and made a corresponding adjustment to the right-of-use asset of $267,778.

Upon adoption of IFRS 16, the Company updated its lease accounting policy as follows:

The Company assesses whether a contract is or contains a lease at the inception of the contract. Leases are recognized as a right-of-use asset and corresponding lease liability at the lease commencement date. The lease liability is measured at the present value of the future fixed payments and variable lease payments that depend on an index or rate over the lease term, less any lease incentives receivable, discounted using the lessee's incremental borrowing rate, unless the implicit interest rate in the lease can be easily determined. Lease liabilities are subsequently measured at amortized cost using the effective interest rate method. Lease terms applied are the contractual non-cancellable periods of the lease, plus periods covered by renewal or termination options, if the Company is reasonably certain to exercise those options. Lease liabilities are remeasured (with a corresponding adjustment to the right-of-use asset) when there is a change in the lease term, a change in the future lease payments resulting from a change in an index or rate used to determine those payments, or when the lease contract is modified and the lease modification is not accounted for as a separate lease.

The right-of-use assets include the initial measurement of the corresponding lease liabilities, lease payments at or before the commencement date, any initial direct costs, less any lease incentives received before the commencement date. The right-of-use assets are subsequently measured at cost and are depreciated on a straight-line basis from the date the underlying asset is available for use over the five year lease term.

The Company has elected not to recognise right-of-use assets and lease liabilities for leases of low value assets and short-term leases. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

COVID-19 PANDEMIC

In March 2020, the World Health Organization declared the COVID-19 outbreak a pandemic. The ultimate duration of COVID-19, the magnitude of the impact on the economy, and the full extent to which COVID-19 may have direct and indirect impacts on Nanotech's business is not known at this time. This could include an impact on the Company's ability to obtain debt and equity financing, impairment in the value of long-lived assets, or potential future decrease in revenue or the profitability of Nanotech's operations. The Company has not yet experienced any material negative impacts to its business, results of operations, or its financial position as a result of COVID-19, other than the deferral of some customer ordering decisions and potential sales opportunities to fiscal 2021.

As of the date of this MD&A, the Company's Thurso, Quebec production facility and Burnaby, BC office and laboratories are fully operational, with appropriate health and safety measures implemented.

ADDITIONAL INFORMATION

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.

Public Securities Filings

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.

Condensed Interim Financial Statements of

Nanotech Security Corp.

Three and nine months ended June 30, 2020 and 2019
(Unaudited)

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	2020	2019
		Adjusted note 2(a)		Adjusted note 2(a)
Revenue (note 2(a) and note 10)	$ 1,946,620	$ 1,827,339	$ 4,801,062	$ 4,953,015
Cost of sales (note 11)	336,822	495,333	894,041	1,174,232
	1,609,798	1,332,006	3,907,021	3,778,783
Expenses (note 11)				
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 (note 12)	-	-	-	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) expense				
Foreign exchange (gain) loss	45,243	32,798	(24,216)	2,460
Finance income (note 6)	(18,854)	(49,343)	(80,460)	(150,308)
Tenant income	-	(58,626)	(56,276)	(184,708)
Steam (income) expense (note 2(a))	-	(36,145)	74,245	(132,005)
	26,389	(111,316)	(86,707)	(464,561)
Net loss and total comprehensive loss	$ (332,367)	$ (521,490)	$ (2,088,190)	$ (2,130,406)
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

See accompanying notes to the condensed interim financial statements.

Nanotech Security Corp.

Condensed Interim Statements of Financial Position
(Unaudited)

(In Canadian dollars)

	June 30, 2020	September 30, 2019
Assets		
Current assets:		
Cash and cash equivalents (note 9(c))	$ 1,069,358	$ 2,752,002
Short-term investments (note 4)	7,644,186	7,537,262
Accounts receivable	799,038	503,660
Inventory (note 5)	232,843	237,264
Prepaid expenses and other assets	178,691	419,753
	9,924,116	11,449,941
Property, plant and equipment	15,335,551	15,684,845
Goodwill	1,388,458	1,388,458
Right-of-use asset (note 3)	909,445	-
	$ 27,557,570	$ 28,523,244
Liabilities and Shareholders' Equity		
Current liabilities:		
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 (note 3)	170,250	-
	1,757,632	1,775,527
Non-current liabilities:		
Tenant inducement	-	16,083
Lease liability (note 3)	810,037	-
	2,567,669	1,791,610
Shareholders' equity		
Share capital (note 7(a))	62,355,479	62,355,479
Contributed surplus (note 7(b))	3,477,309	3,130,852
Deficit	(40,842,887)	(38,754,697)
	24,989,901	26,731,634
	$ 27,557,570	$ 28,523,244

Related party transactions (note 8)
Commitments and contingencies (note 14)
See accompanying notes to the condensed interim financial statements.

Approved on behalf of the Board of Directors:

"Neil McDonnell"
Neil McDonnell, Director

"Ronan McGrath"
Ronan McGrath, Director

Nanotech Security Corp.

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

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

	Number of shares	Share capital	Contributed surplus	Deficit	Total shareholders' equity
Balance as at October 1, 2018	68,771,501	$ 61,892,395	$ 2,930,964	$ (35,919,443)	$ 28,903,916
Net loss	-	-	-	(2,130,406)	(2,130,406)
RSUs vested (note 7(b)(ii))	187,500	188,070	(188,070)	-	-
Share-based compensation - options (note 7(b)(i))	-	-	313,625	-	313,625
Share-based compensation - RSUs (note 7(b)(ii) and note 12)	-	-	253,287	-	253,287
Balance as at June 30, 2019	68,959,001	$ 62,080,465	$ 3,309,806	$ (38,049,849)	$ 27,340,422
Balance as at October 1, 2019	69,200,125	$ 62,355,479	$ 3,130,852	$ (38,754,697)	$ 26,731,634
Net loss	-	-	-	(2,088,190)	(2,088,190)
Share-based compensation - options (note 7(b)(i))	-	-	262,942	-	262,942
Share-based compensation - RSUs (note 7(b)(ii))	-	-	83,515	-	83,515
Balance as at June 30, 2020	69,200,125	$ 62,355,479	$ 3,477,309	$ (40,842,887)	$ 24,989,901

See accompanying notes to the condensed interim financial statements.

Nanotech Security Corp.

Condensed Interim Statements of Cash Flows
(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 (note 11)	400,354	386,496	1,207,195	1,167,865
Share-based compensation (note 11 and note 12)	103,357	168,904	346,457	566,912
Unrealized foreign exchange gain (loss)	49,524	(33,918)	13,555	(16,694)
Finance income (note 6)	(18,854)	(49,343)	(80,460)	(150,308)
Other	(3,132)	(6,786)	(9,233)	(24,151)
Non-cash working capital changes (note 9(a))	(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 (note 13)	-	(434)	-	(5,411)
Cash provided by (used in) operating activities	(101,946)	(392,730)	(688,477)	140,832
Investing activities:				
Purchase of property and equipment (note 9(d))	(304,652)	(63,527)	(769,071)	(111,433)
Net acquisition of short-term investments	(33,301)	95,168	(103,951)	66,993
Cash provided by (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

See supplementary cash flow information (note 9)
See accompanying notes to the condensed interim financial statements.

1. Summary of business

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

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

2. Basis of preparation

(a) *Statement of compliance*

These condensed interim financial statements are prepared in accordance with International Accounting Standards (“IAS”) 34 – *Interim Financial Reporting*, as issued by the International Accounting Standards Board (“IASB”) on a basis consistent with those followed in the most recent annual audited consolidated financial statements, with the exception of a new accounting policy that was adopted on October 1, 2019 as described in note 3.

These condensed interim financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the Company’s audited consolidated financial statements for the year ended September 30, 2019.

Certain comparative figures in the condensed interim statements of operations and comprehensive loss have been reclassified to conform to the current period’s presentation. This reclassification had no impact on the net loss and total comprehensive loss.

For the three and nine months ended June 30, 2019, revenue and cost of sales were adjusted to reflect the reclassification of steam from revenue to other income under IFRS 15 – *Revenue from Contracts with Customers*. There was no impact on net loss and total comprehensive loss.

Revenue for the three months ended June 30, 2019 was previously reported as $1,891,014 and adjusted to $1,827,339, due to a reclassification of $63,675 to other income. Cost of sales was previously reported as $522,863 and adjusted to $495,333, due to a reclassification of $27,530 to other income.

Revenue for the nine months ended June 30, 2019 was previously reported as $5,530,772 and adjusted to $4,953,015, due to a reclassification of $577,757 to other income. Cost of sales was previously reported as $1,619,984 and adjusted to $1,174,232, due to a reclassification of $445,752 to other income.

These condensed interim financial statements were approved and authorized for issue by the Company’s Board of Directors on August 5, 2020.

(b) *Basis of measurement*

These condensed interim financial statements are presented in Canadian dollars and have been prepared on a historical cost basis.

(In Canadian dollars)

3. Change in accounting policy

IFRS 16 – Leases

In January 2016, the IASB issued IFRS 16 – *Leases*, which supersedes IAS 17 – *Leases*. IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases. The standard establishes a single model for lessees to bring leases on balance sheet while lessor accounting remains largely unchanged and retains the finance and operating lease distinctions. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. The Company adopted the standard on October 1, 2019, using the modified retrospective approach. The modified retrospective approach applies the requirements of the standard retrospectively with the cumulative effects of initial application recorded in opening accumulated deficit as at October 1, 2019, and no restatement of the comparative period.

On October 1, 2019, the Company had two real estate leases for office space which were impacted by the adoption of the standard. The Company recognized right-of-use assets of $780,767, net of tenant inducements of $35,001, and lease liabilities of $815,768 related to these leases. The right-of-use assets are depreciated on a straight-line basis over the remaining lease term. The lease liability is carried at amortized cost with a finance charge recorded using the effective interest rate method. The depreciation expense of the right-of-use assets and the finance charge of the lease liability partially replaced the lease-related expenses recorded in general and administration expense. In relation to the leases under IFRS 16, the Company recognized depreciation expense of $47,041 and $139,100 and finance costs of $11,278 and $34,000 for the three and nine months ended June 30, 2020 respectively, compared to general and administration expense of $51,710 and $155,131 for the three and nine months ended June 30, 2019 respectively.

The following table reconciles the operating lease commitments included in the September 30, 2019 commitments note to the lease liability recorded on transition as at October 1, 2019.

Operating lease commitments as at September 30, 2019	$	281,029
Discounted using the incremental borrowing rate as at October 1, 2019		(17,990)
Lease liabilities recognized as at October 1, 2019		263,039
Extension options reasonably certain to be exercised		552,729
Lease liabilities recognized as at October 1, 2019	$	815,768

On November 6, 2019, the Company signed a lease extension and modification agreement to combine its two leases and extend the term to April 30, 2025. As required by IFRS 16, the Company remeasured the lease liability by discounting the revised lease payments using an incremental borrowing rate of 4.5% and made a corresponding adjustment to the right-of-use asset of $267,778.

The following table reconciles the change in the right-of-use asset for the period ended June 30, 2020.

Balance on transition, October 1, 2019	$	780,767
Lease modification		267,778
Depreciation		(139,100)
Balance as at June 30, 2020	$	909,445

(In Canadian dollars)

3. Change in accounting policy (continued)

IFRS 16 – Leases (continued)

The following table reconciles the change in the lease liability and discloses a maturity analysis of the lease liability for the period ended June 30, 2020.

Balance on transition, October 1, 2019	$	815,768
Lease modification		267,778
Accretion of lease liability (note 6)		34,000
Repayment of principal and interest		(137,259)
Balance as at June 30, 2020	$	980,287
Minimum lease payments:		
Less than one year	$	210,786
Between one and five years		885,172
		1,095,958
Less future finance charges		(115,671)
	$	980,287
Current portion	$	170,250
Non-current portion		810,037
Balance as at June 30, 2020	$	980,287

Upon adoption of IFRS 16, the Company updated its lease accounting policy as follows:

The Company assesses whether a contract is or contains a lease at the inception of the contract. Leases are recognized as a right-of-use asset and corresponding lease liability at the lease commencement date. The lease liability is measured at the present value of the future fixed payments and variable lease payments that depend on an index or rate over the lease term, less any lease incentives receivable, discounted using the lessee's incremental borrowing rate, unless the implicit interest rate in the lease can be easily determined. Lease liabilities are subsequently measured at amortized cost using the effective interest rate method. Lease terms applied are the contractual non-cancellable periods of the lease, plus periods covered by renewal or termination options, if the Company is reasonably certain to exercise those options. Lease liabilities are remeasured (with a corresponding adjustment to the right-of-use asset) when there is a change in the lease term, a change in the future lease payments resulting from a change in an index or rate used to determine those payments, or when the lease contract is modified and the lease modification is not accounted for as a separate lease.

The right-of-use assets include the initial measurement of the corresponding lease liabilities, lease payments at or before the commencement date, any initial direct costs, less any lease incentives received before the commencement date. The right-of-use assets are subsequently measured at cost and are depreciated on a straight-line basis from the date the underlying asset is available for use over the five year lease term.

The Company has elected not to recognise right-of-use assets and lease liabilities for leases of low value assets and short-term leases. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

4. Short-term investments

Short-term investments of $7,644,186 (September 30, 2019 - $7,537,262) consist of cashable term deposits held with a Canadian chartered bank. The term deposits have maturity dates between August 18, 2020 and January 19, 2021. Interest rates range between 0.55% and 2.01%.

(In Canadian dollars)

5. Inventory

	June 30, 2020	September 30, 2019
Raw materials	$ 124,728	$ 134,435
Work in progress	74,096	100,087
Finished goods	34,019	2,742
	$ 232,843	$ 237,264

There were no inventory write-downs during the three and nine months ended June 30, 2020 and 2019.

For the three months ended June 30, 2020, the Company recognized inventories of $73,865 (June 30, 2019 - $52,361) as expensed through cost of sales. For the nine months ended June 30, 2020, the Company recognized inventories of $257,178 (June 30, 2019 - $136,029) as expensed through cost of sales.

6. Finance income

	Three months ended June 30		Nine months ended June 30	
	2020	2019	2020	2019
Interest income from cash and cash equivalents and short-term investments	$ (32,571)	$ (51,493)	$ (122,339)	$ (156,600)
Interest paid on lease liability	11,278	-	34,000	-
Other interest expenses	2,439	2,150	7,879	6,292
	$ (18,854)	$ (49,343)	$ (80,460)	$ (150,308)

7. Share capital

(a) *Share capital*

Authorized:

Unlimited number of common shares with no par value

Unlimited number of preferred shares with no par value

Common shares issued and fully paid:

	Number of shares	Amount
Balance as at September 30, 2019 and June 30, 2020	69,200,125	$ 62,355,479

There are no preferred shares issued and outstanding.

(In Canadian dollars)

7. Share capital (continued)

(b) *Share-based payment plans*

(i) Stock option plan

Under the Company's share incentive plan, the maximum number of shares that may be reserved for grant of options at any point in time is 10% of the outstanding shares, less any shares reserved for issuance under the restricted share unit ("RSU") plan. The following stock options were outstanding as at June 30, 2020:

	Number of options	Weighted average exercise price
Balance as at September 30, 2019	3,535,000	$ 0.95
Granted	1,729,000	0.38
Forfeited	(53,750)	0.45
Expired	(725,800)	1.07
Balance as at June 30, 2020	4,484,450	$ 0.71

The following table summarizes information pertaining to the Company's stock options outstanding as at June 30, 2020.

	Options outstanding			Options exercisable	
Range of exercise prices	Number of options outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price	Number of options exercisable	Weighted average exercise price
$0.00 - $0.50	1,681,500	4.53	$ 0.38	719,500	$ 0.40
$0.51 - $0.75	1,506,250	3.52	0.61	1,368,750	0.61
$1.01 - $1.25	691,700	1.26	1.12	691,700	1.12
$1.26 - $1.50	605,000	2.11	1.43	605,000	1.43
	4,484,450	3.36	$ 0.71	3,384,950	$ 0.82

The Company calculates the fair value of the options at the grant date using the Black-Scholes option-pricing model. The table below outlines the weighted average assumptions used to estimate the fair value of options granted during the three and nine month periods ended June 30, 2020 and 2019.

	Three months ended June 30		Nine months ended June 30	
	2020	2019	2020	2019
Risk free interest rate	0.4%	1.4%	1.4%	2.0%
Expected life	5.0	5.0	5.0	4.7
Expected volatility	60.9%	46.0%	52.8%	44.9%
Expected dividends	Nil	Nil	Nil	Nil
Average fair value	$0.12	$0.25	$0.17	$0.23

For the three and nine months ended June 30, 2020 and 2019, the Company charged the following share-based payments to operating expenses in connection with the Company's stock option plan, with a corresponding increase in contributed surplus:

	Three months ended June 30		Nine months ended June 30	
	2020	2019	2020	2019
Total compensation - stock options	$ 73,717	$ 115,717	$ 262,942	$ 313,625

(In Canadian dollars)

7. Share capital (continued)

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

(ii) Restricted share unit plan

RSUs outstanding as at June 30, 2020:

	Number of RSUs
Balance as at September 30, 2019	225,502
Forfeited	(43,162)
Granted	301,479
Balance as at June 30, 2020	483,819

For the three and nine months ended June 30, 2020 and 2019, the Company charged the following share-based payments to operating expenses in connection with the Company's RSU plan, with a corresponding increase in contributed surplus:

	Three months ended June 30		Nine months ended June 30	
	2020	2019	2020	2019
Total compensation - RSUs	$ 29,640	$ 53,187	$ 83,515	$ 253,287

8. Related party transactions

For the three and nine months ended June 30, 2020 and 2019, the Company had no transactions with related parties as defined in IAS 24 – *Related Party Disclosures*, except those pertaining to transactions with key management personnel in the ordinary course of their employment, or as disclosed below.

(a) Remuneration of key management personnel

	Three months ended June 30		Nine months ended June 30	
	2020	2019	2020	2019
Salaries, accrued bonuses, employee benefits and director fees	$ 178,278	$ 150,344	$ 566,166	$ 456,276
Share-based payments	60,972	60,343	201,098	222,935
Restructuring costs (note 12)	-	-	-	815,700
	$ 239,250	$ 210,687	$ 767,264	$ 1,494,911

(b) As at June 30, 2020, amounts owing to directors for director fees and expense reimbursements included in accounts payable and accrued liabilities were $39,971 (September 30, 2019 - $47,622).

(c) As at June 30, 2020, amounts owing to a company controlled by a director of the Company included in accounts payable and accrued liabilities were $nil (September 30, 2019 - $84,375). The payables as at September 30, 2019 represent amounts owing upon the termination of an executive services consulting agreement (note 12).

(d) Legal and professional fees, taxes and disbursements totaling $nil for the three and nine months ended June 30, 2020 (June 30, 2019 - $4,658 and $40,912 for the three and nine months respectively) were incurred with a law firm of which a director of the Company was at the time a partner.

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

(In Canadian dollars)

9. Supplementary cash flow information

(a) Changes in non-cash working capital

	Three months ended June 30		Nine months ended June 30	
	2020	2019	2020	2019
Accounts receivable	$ (267,495)	$ (306,146)	$ (291,671)	$ 646,413
Inventory	(65,307)	(4,167)	5,767	(16,434)
Prepaid expenses and other assets	166,746	(125,397)	241,421	(133,662)
Accounts payable and accrued liabilities (note 9(d))	204,654	(26,282)	90,972	51,057
Deposit	(280,510)	-	(293,510)	-
Deferred revenue	(82,500)	-	82,500	-
	$ (324,412)	$ (461,992)	$ (164,521)	$ 547,374

(b) Income taxes

The Company did not pay any income taxes during the three and nine months ended June 30, 2020 and 2019.

(c) Cash and cash equivalents

Cash and cash equivalents consist of cash balances with banks, investments with original maturities of three months or less, and investments that are both readily convertible to cash and subject to insignificant changes in market value:

	June 30, 2020	September 30, 2019
Cash	$ 848,915	$ 752,911
Cash equivalents	220,443	1,999,091
	$ 1,069,358	$ 2,752,002

(d) Supplemental disclosure of non-cash investing activities

As at June 30, 2020, property, plant and equipment included in accounts payable was $173,011 (June 30, 2019 - $1,900).

10. Revenue and segmented information

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

	Three months ended June 30		Nine months ended June 30	
	2020	2019 Adjusted note 2(a)	2020	2019 Adjusted note 2(a)
Contract services	$ 1,495,812	$ 1,677,159	$ 3,983,857	$ 4,633,580
Products and services	450,808	150,180	817,205	319,435
	$ 1,946,620	$ 1,827,339	$ 4,801,062	$ 4,953,015

During the three months ended June 30, 2020, the Company recognized revenue of $208,233, which was previously recorded as a deposit on the balance sheet, as a result of the change in transaction price allocated to a satisfied performance obligation.

(In Canadian dollars)

10. Revenue and segmented information (continued)

For the three months ended June 30, 2020, sales within Canada were $43,105 (June 30, 2019 - $144,240) and sales outside Canada were $1,903,515 (June 30, 2019 - $1,683,099). For the nine months ended June 30, 2020, sales within Canada were $116,359 (June 30, 2019 - $254,003) and sales outside Canada were $4,684,703 (June 30, 2019 - $4,699,012).

During the three months ended June 30, 2020, the Company had two customers who represented greater than 10% of total revenues. These customers represented approximately 77% and 20% of total revenues respectively (June 30, 2019 - one customer represented approximately 92% of total revenues). During the nine months ended June 30, 2020, the Company had two customers who represented greater than 10% of total revenues. These customers represented approximately 83% and 11% of total revenues respectively (June 30, 2019 - one customer represented approximately 94% of total revenues).

11. Nature of expenses

The expenses presented below represent total cost of sales, research and development, general and administration expenses, sales and marketing, depreciation and amortization and restructuring costs. During the three months ended June 30, 2020, the Company received $183,754 in Canada Emergency Wage Subsidy relief related to COVID-19. The relief was accounted for as a government grant related to income in accordance with IAS 20 – *Accounting for Government Grants and Disclosure of Government Assistance*. This government grant is non-repayable and was recorded as a reduction in the associated eligible salaries which the Company incurred.

	Three months ended June 30		Nine months ended June 30	
	2020	2019 Adjusted note 2(a)	2020	2019 Adjusted note 2(a)
Salaries and benefits	$ 809,796	$ 895,443	$ 2,705,333	$ 2,511,684
Share-based compensation	103,357	168,904	346,457	474,712
Depreciation and amortization	400,354	386,496	1,207,195	1,167,865
Travel and entertainment	6,625	82,034	218,238	220,597
Professional fees and insurance	358,663	285,425	942,350	703,078
Public company costs	82,917	91,184	254,529	297,576
Rent and utilities	147,332	178,094	475,284	543,886
Maintenance and office expenses	158,398	92,307	399,683	246,180
Materials consumed	185,156	280,258	426,890	566,704
Restructuring costs (note 12)	-	-	-	815,700
	$ 2,252,598	$ 2,460,145	$ 6,975,959	$ 7,547,982

12. Restructuring costs

On December 21, 2018, the Board implemented an executive transition plan, under which Mr. Doug Blakeway, the former CEO, transitioned his responsibilities to Mr. Troy Bullock. Under the terms of this transition plan, Mr. Blakeway's executive services consulting agreement was terminated, triggering the following termination benefits as laid out in the agreement: two years base salary, a pro-rated performance bonus, and vesting of all outstanding share-based awards. The Company incurred restructuring costs of $815,700 for the nine month period ended June 30, 2019, of which $92,200 represented share-based compensation related to the accelerated vesting of Mr. Blakeway's RSUs.

In January 2019, termination benefits were paid and 187,500 shares were issued to Mr. Blakeway upon vesting of his RSUs. Restructuring costs of $nil remain accrued as at June 30, 2020 (September 30, 2019 - $84,375).

(In Canadian dollars)

13. Discontinued operations

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

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

The cash flows for the three and nine month periods ended June 30, 2019 include the effects of extinguishment of remaining liabilities pursuant to the disposal.

14. Commitments and contingencies

As at June 30, 2020, the Company is committed to equipment purchases, operating costs in respect of leased office space, and contracted equipment maintenance for the following amounts:

2020	$	131,861
2021		263,712
2022		257,208
2023		188,458
2024		107,208
2025		62,538
	$	1,010,985

In March 2020, the World Health Organization declared the COVID-19 outbreak a pandemic. The ultimate duration of COVID-19, the magnitude of the impact on the economy, and the full extent to which COVID-19 may have direct and indirect impacts on Nanotech's business is not known at this time. This could include an impact on the Company's ability to obtain debt and equity financing, impairment in the value of long-lived assets, or potential future decrease in revenue or the profitability of Nanotech's operations. The Company has not yet experienced any material negative impacts to its business, results of operations, or its financial position as a result of COVID-19, other than the deferral of some customer ordering decisions and potential sales opportunities to fiscal 2021.