



June 30, 2021

QUARTERLY REPORT



Nanotech Security Corp.

Management's Discussion and Analysis
For the three and nine months ended June 30, 2021

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, 2021. Year to date means the nine months ended June 30, 2021.

ADVISORY

This MD&A dated August 4, 2021 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, 2021 as well as with the Company's audited financial statements and MD&A for the year ended September 30, 2020. 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 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 the Company's revenue growth, prospects for advancing the development contract, expansion of manufacturing capabilities, development of a visual security feature, customer confidence, finalization of a second phase, multi-year development contract, investment in additional development staff, product trials and certifications, additional product launches, applications of nanostructures beyond the Company's initial key markets, expansion of the Company's network of channel partners and, in respect of the Transaction, the Company's ability to meet all condition precedents set forth in the Arrangement Agreement (including that there be no material adverse effect on the Company before closing of the Transaction) prior to the outside date set forth therein, the Company's ability to secure the required Court approvals in connection with the Transaction and the approval of the Transaction by Company securityholders. Additional forward-looking statements may include 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 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 financial statements for the year ended September 30, 2020, as well as with the Company's continuous disclosure materials filed from time to time with Canadian securities regulatory authorities, which are available online at www.sedar.com. Nanotech disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, other than as required by law. Caution needs to be used when taking forward-looking statements into account when evaluating the Company.

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GENERAL OVERVIEW

Nanotech is incorporated under the laws of British Columbia, 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 develops and produces nano-optic structures and colour-shifting foils 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 visual 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 optical 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 visual 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.

Pending Acquisition by Meta Materials Inc.

On August 5, 2021, the Company announced that it has entered into an arrangement agreement with Meta Materials Inc. ("META®")(NASDAQ: MMAT), a developer of high-performance functional materials and nanocomposites, pursuant to which META will acquire Nanotech for \$1.25 per common share in an all-cash transaction (the "Transaction") valued at approximately \$90.8 million. The Board of Directors and its special committee of independent members have unanimously recommended that the shareholders vote in favour of the Transaction. The Transaction is subject to customary closing conditions, including approval by the Company's securityholders. Subject to the satisfaction or waiver of all closing conditions, the transaction is expected to close in early October.

Further information about the Transaction is set out in the Company's news release dated August 5, 2021 and other filings which are available under Nanotech's profile on SEDAR at www.sedar.com.

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RESULTS OF OPERATIONS

Select financial information for the three and nine months ended June 30, 2021 and 2020:

Select Financial Information	Three months ended June 30		Nine months ended June 30	
	2021	2020	2021	2020
Revenue	\$ 2,605,022	\$ 1,946,620	\$ 6,115,154	\$ 4,801,062
Cost of sales	632,737	336,822	1,477,290	894,041
	1,972,285	1,609,798	4,637,864	3,907,021
Expenses				
Research and development	556,021	438,201	1,766,367	1,396,229
General and administration	543,317	556,619	1,671,881	1,753,989
Sales and marketing	542,503	532,018	1,515,870	1,769,761
Depreciation and amortization	364,523	388,938	1,102,100	1,161,939
Transaction costs	197,351	-	197,351	-
	2,203,715	1,915,776	6,253,569	6,081,918
Loss from operations before other (income) expenses	(231,430)	(305,978)	(1,615,705)	(2,174,897)
Other (income) expenses	22,917	26,389	106,778	(86,707)
Net loss	\$ (254,347)	\$ (332,367)	\$ (1,722,483)	\$ (2,088,190)
Adjusted EBITDA ⁽¹⁾	\$ 453,368	\$ 197,733	\$ 1,730	\$ (621,245)

⁽¹⁾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 for the three and nine months ended June 30, 2020 was amended to exclude tenant and steam (income) expenses, which are no longer expected to be recurring in nature. See the Quarterly Results section of this MD&A for the revised historical figures on a quarterly basis.

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 increased \$819,829 or 55% in the three months ended June 30, 2021 compared to the same period last year. For the nine months ended June 30, 2021, revenues from this customer increased by \$1,644,515 or 41% compared to the same period last year.

Total revenue for the three months ended June 30, 2021 increased by \$658,402 or 34% to \$2,605,022, compared to \$1,946,620 in the same period last year. For the nine months ended June 30, 2021 total revenue increased by \$1,314,092 or 27% to \$6,115,154, compared to \$4,801,062 in the same period last year. The increase in total revenue for both periods was due to higher contract services revenue in the current period, partially offset by reduced product revenue.

Gross Margin

Gross margin for the three months ended June 30, 2021 increased by \$362,487 or 23% to \$1,972,285, compared to \$1,609,798 in the same period last year as a result of the increase in total revenue. The gross margin percentage was 76% for the three months ended June 30, 2021, down from 83% in the same period last year. This decrease was primarily due to additional labour and other expenditures incurred to meet contract services deliverables in the current period.

Gross margin for the nine months ended June 30, 2021 increased by \$730,843 or 19% to \$4,637,864, compared to \$3,907,021 in the same period last year as a result of the increase in contract services revenue. The gross margin percentage was 76% for the nine months ended June 30, 2021, down from 81% in the same period last year primarily due to lower margins on contract services in the current period.

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Research and Development

Research and development expenditures for the three months ended June 30, 2021 were \$556,021, an increase of \$117,820 or 27%, compared to \$438,201 in the same period last year. This increase was primarily due to increased headcount and therefore higher salary expense in the current period.

Research and development expenditures for the nine months ended June 30, 2021 were \$1,766,367, an increase of \$370,138 or 27%, compared with \$1,396,229 in the same period last year. This increase is in line with management's plan to make strategic investments in research and development to bring new products to market in fiscal 2021. The Company hired additional research and development staff and increased patent expenditures in the current period.

General and Administration

General and administration expenditures for the three months ended June 30, 2021 were \$543,317, a decrease of \$13,302 or 2%, compared to \$556,619 in the same period last year. The decrease was primarily due to decreased utilities expense and professional fees in the current period.

General and administration expenditures for the nine months ended June 30, 2021 were \$1,671,881, a decrease of \$82,108 or 5%, compared to \$1,753,989 in the same period last year. The decrease was primarily due to decreased utilities expense, share-based compensation and professional fees in the current period.

Sales and Marketing

Sales and marketing expenditures for the three months ended June 30, 2021 were \$542,503, comparable to \$532,018 in the same period last year.

Sales and marketing expenditures for the nine months ended June 30, 2021 were \$1,515,870, a decrease of \$253,891 or 14%, compared to \$1,769,761 in the same period last year. The decrease was primarily due to lower travel and conference costs in the COVID-19 environment as well as lower consulting expenses in the current period, partially offset by higher salary and investor relations expenses.

Depreciation and Amortization

Depreciation and amortization expense included in operating expenditures for the three and nine months ended June 30, 2021 were \$364,523 and \$1,102,100 respectively, compared to \$388,938 and \$1,161,939 respectively in the same periods last year, which reflects reduced depreciation under the Company's declining balance depreciation method.

Transaction Costs

Transaction costs of \$197,351 were incurred during the current period as the Company prepared to enter into an arrangement agreement with META.

Other (Income) Expense

Other expense for the three months ended June 30, 2021 was \$22,917, a decrease of \$3,472 or 13% compared to \$26,389 in the same period last year. The decrease was primarily due to decreased interest income in the current period, partially offset by tenant income as the Company began leasing excess warehouse space in its Thurso, Quebec facility to a new tenant.

Other expense for the nine months ended June 30, 2021 was \$106,778, an increase of \$193,485 compared to other income of \$86,707 in the same period last year. Finance income decreased during the current period due to lower interest rates while foreign exchange loss increased compared to the same period last year. The increase in expense was partially offset by steam expense in the prior period and reduced tenant income in the current period as a result of the termination of tenant and steam agreements during the second quarter of 2020.

Adjusted EBITDA

Adjusted EBITDA for the three months ended June 30, 2021 was positive \$453,368 compared to positive \$197,733 during the same period last year. The improvement was primarily due to increased revenue in the current period, partially offset by lower gross margins and increased research and development expenses as the Company continued to invest in its research and development team.

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Adjusted EBITDA for the nine months ended June 30, 2021 was positive \$1,730 compared to negative \$621,245 during the same period last year. The improvement was primarily due to increased revenue in the current period in combination with decreased sales and marketing expenses in the COVID-19 environment and lower general and administration expenses, partially offset by lower gross margins and increased research and development expenses.

Net Loss

Net loss for the three months ended June 30, 2021 was \$254,347, compared to net loss of \$332,367 during the same period last year. The decrease in net loss was primarily due to increased revenue in the current period, partially offset by lower gross margins and increased research and development expenditures.

Net loss for the nine months ended June 30, 2021 was \$1,722,483, compared to net loss of \$2,088,190 in the same period last year. The decrease in net loss was primarily due to increased revenue in combination with reduced sales and administrative expenses in the current period, partially offset by lower gross margins, increased research and development expenditures and foreign exchange losses.

QUARTERLY RESULTS

	Q3 2021	Q2 2021	Q1 2021	Q4 2020	Q3 2020	Q2 2020	Q1 2020	Q4 2019
(\$ thousands, except per share data)								
Revenue	\$2,605	\$1,798	\$1,712	\$2,913	\$1,947	\$1,385	\$1,470	\$1,450
Net income (loss)	(254)	(763)	(705)	293	(332)	(973)	(782)	(705)
Adjusted EBITDA ⁽¹⁾	453	(255)	(197)	953	198	(567)	(252)	(263)
Basic earnings (loss) per share:								
Net income (loss)	(0.00)	(0.01)	(0.01)	0.00	(0.00)	(0.01)	(0.01)	(0.01)
Diluted earnings (loss) per share:								
Net income (loss)	(0.00)	(0.01)	(0.01)	0.00	(0.00)	(0.01)	(0.01)	(0.01)

⁽¹⁾Adjusted EBITDA is a non-IFRS measure as described in the Non-IFRS Financial Measures section of this MD&A.

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. 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, 2021 and 2020, 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	
	2021	2020	2021	2020
Salaries, accrued bonuses, employee benefits and director fees	\$ 242,373	\$ 178,278	\$ 644,257	\$ 566,166
Share-based payments	52,827	60,972	139,818	201,098
	\$ 295,200	\$ 239,250	\$ 784,075	\$ 767,264

(b) As at June 30, 2021, amounts owing to directors for director fees and expense reimbursements included in accounts payable and accrued liabilities were \$75,786 (September 30, 2020 - \$58,619).

(c) On January 15, 2021, the Company purchased six patents from a company owned by a director of the Company for \$100,000 and agreed to share 10% of any product revenues related to the patents from a specific customer for a period of two years as well as ongoing royalties of 3% to 6% on other revenues derived from the patents for a period of five years.

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The above transactions 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		Nine months ended	
	June 30		June 30	
	2021	2020	2021	2020
Cash provided by (used in) operating activities	\$ 970,976	\$ (101,946)	\$ 864,947	\$ (688,477)
Cash used in investing activities	(98,415)	(337,953)	(466,729)	(873,022)
Cash used in financing activities	(39,843)	(34,420)	(127,268)	(103,259)
Effect of foreign exchange on cash and cash equivalents	2,955	(61,734)	33,114	(17,886)
Cash and cash equivalents, beginning of period	1,220,246	1,605,411	1,751,855	2,752,002
Cash and cash equivalents, end of period	\$ 2,055,919	\$ 1,069,358	\$ 2,055,919	\$ 1,069,358

Operating Activities

Cash provided by operating activities was \$970,976 for the three months ended June 30, 2021, compared to cash used in operating activities of \$101,946 for the same period last year. The increase in cash provided by operating activities reflects changes in non-cash working capital, particularly related to deferred revenue collected in the quarter, in combination with the underlying improvement in revenue that improved operating results in the current period.

Cash provided by operating activities was \$864,947 for the nine months ended June 30, 2021, compared to cash used in operating activities of \$688,477 for the same period last year. The difference was a result of decreased net loss during the current period in combination with a decrease in accounts receivable and collection of deferred revenue in the current period.

Investing Activities

Cash used in investing activities for the three and nine months ended June 30, 2021 was \$98,415 and \$466,729 respectively, compared to \$337,953 and \$873,022 respectively during the same periods last year. The decrease was a result of the Company completing capital projects within the Thurso production facility in fiscal 2021, resulting in a decrease in capital expenditures compared to the same periods in the prior year. The decrease in the current nine-month period was partially offset by the acquisition of six patents, with a cash outlay of \$85,000.

Financing Activities

Cash used in financing activities for the three and nine months ended June 30, 2021 was \$39,843 and \$127,268 respectively, compared to \$34,420 and \$103,259 respectively in the same periods last year, which represents payment of the lease liability.

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.

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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, 2021, there were no changes in the Company'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 \$8.9 million at quarter end and no debt.

	June 30, 2021	September 30, 2020
Cash	\$ 829,570	\$ 1,026,845
Cash equivalents	1,226,349	725,010
Short-term investments	6,881,136	6,849,285
	<u>\$ 8,937,055</u>	<u>\$ 8,601,140</u>

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

The Company had commitments of \$721,317 as at June 30, 2021, primarily for operating costs in respect of leased office space, and contracted equipment maintenance. Management has reviewed its projected funding requirements for the next 12 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 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 transaction 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	
	2021	2020 ⁽¹⁾	2021	2020 ⁽¹⁾
Net loss	\$ (254,347)	\$ (332,367)	\$ (1,722,483)	\$ (2,088,190)
Finance (income) expenses	3,610	(18,854)	3,812	(80,460)
Foreign exchange (gain) loss	30,436	45,243	114,095	(24,216)
Depreciation and amortization	379,783	400,354	1,133,239	1,207,195
Transaction costs	197,351	-	197,351	-
Share-based compensation	107,664	103,357	286,845	346,457
Tenant income	(11,129)	-	(11,129)	(56,276)
Steam expense	-	-	-	74,245
Adjusted EBITDA	<u>\$ 453,368</u>	<u>\$ 197,733</u>	<u>\$ 1,730</u>	<u>\$ (621,245)</u>

⁽¹⁾ The calculation of Adjusted EBITDA was amended to exclude tenant and steam (income) expenses, which are no longer expected to be recurring in nature. See the Quarterly Results section of this MD&A for the revised historical figures on a quarterly basis.

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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 audited financial statements for the year ended September 30, 2020. In the three and nine months ended June 30, 2021, 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 a restricted share unit ("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, 2021		September 30, 2020	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Common shares outstanding	69,399,861		69,399,861	
Options				
Outstanding	4,614,000	\$ 0.52	4,783,200	\$ 0.68
Exercisable	3,588,375	\$ 0.54	3,383,700	\$ 0.81
RSUs				
Outstanding	549,671	N/A	284,083	N/A

As at August 4, 2021, the Company has 69,399,861 common shares issued and outstanding. There are no preferred shares issued and outstanding.

NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)

In January 2020, IASB issued *Classification of Liabilities as Current or Non-Current*, which amends IAS 1 – *Presentation of Financial Statements*. The narrow scope amendments affect only the presentation of liabilities in the statement of financial position and not the amount or timing of its recognition. It clarifies that the classification of liabilities as current or non-current is based on rights that are in existence at the end of a reporting period and specifies that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability. It also introduces a definition of 'settlement' to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services. The amendments are effective for annual reporting periods beginning on or after January 1, 2022. Earlier application is permitted. The Company is assessing the potential impact of these amendments.

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.

As of the date of this MD&A, Nanotech's Thurso, Quebec production facility has been designated an essential service by the Quebec Government and it continues at full operation. Burnaby, BC offices and laboratories also remain open and fully operational. The Company has enforced stringent guidelines to

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ensure employees in its offices, labs and production facilities are taking appropriate steps to maintain a safe working environment, including working from home where possible.

ADDITIONAL INFORMATION

Strategic Update

The Company remains focused on commercializing its technology for long-term revenue growth, with efforts centered around the following pillars:

1. **Contract services** – The Company's development contract with a confidential G10 central bank remains a key strategic focus with significant resources committed to this project. Developing a visual security feature that can be integrated into this country's banknotes would be a significant milestone in Nanotech's growth.

The Company is restricted from providing substantive information about this project, but management is encouraged by both the progress of this development contract and ongoing discussions with the customer. The Company secured all available purchase orders for fiscal 2021 with annual revenues expected to be approximately 27% higher than the prior year. This represents the largest annual scope of work for this customer to date and demonstrates the customer's continued confidence in Nanotech's technology. Discussions are also well under way for a second phase, multi-year development contract that management expects to finalize in the fourth quarter of fiscal 2021, along with purchase orders for fiscal 2022.

2. **Product development** – Based on the positive market feedback of Nanotech's latest nano-optic product offerings, management believes there are extensive opportunities to offer these new visual products with exceptional differentiation in both the banknote and brand protection markets. As a result, the Company plans to continue to increase its investment in additional development staff, product trials, and certifications to drive technology advancement and enhanced product development to generate future revenue.

In the second quarter of 2021 the Company launched its LiveOptik™ PROTECT security foil for the brand protection market. This new product continues to be tested by several channel partners for inclusion in their product catalogue. Management plans to have additional product launches before the end of the calendar year for both brand protection and banknote applications.

3. **Strategic partnerships** – Nanotech has developed strategic relationships with established OEM manufacturers to enable scalable delivery for our customers. These relationships reduce the Company's manufacturing risk and extend the market reach of Nanotech's product offering. Management is also developing the Company's internal production capability to complement these OEM offerings, which is being optimized for the Company's proprietary ColourOptik® technology platform. Nanotech is uniquely positioned as a leader in developing and mass-producing complex nanostructures, which could have applications beyond the Company's initial key markets in brand protection and banknote authentication.
4. **Expanded channels to market** – Nanotech will continue to market its products and pursue revenue through both direct sales and strategic channel partners who promote and offer Nanotech's products to their existing customers. Management expects to expand the Company's network of channel partners as new products are launched throughout fiscal 2021.

Product revenue decreased to \$289,381 for the three months ended June 30, 2021, compared to \$450,808 during the same period last year. Nanotech delivered ten customer product orders in the quarter, compared to three in the same period last year. On a year-to-date basis, product revenue of \$486,782 from nineteen orders was lower than product revenue of \$817,205 from fifteen orders in the same period of 2020. These variances were partially due to the timing of certain recurring orders, which can vary from year to year.

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.otcm Markets.com.

Condensed Interim Financial Statements of

Nanotech Security Corp.

Three and nine months ended June 30, 2021 and 2020
(Unaudited)

Nanotech Security Corp.

Condensed Interim Statements of Operations and Comprehensive Loss
(Unaudited)

Three and nine months ended June 30, 2021 and 2020

(In Canadian dollars)

	Three months ended June 30		Nine months ended June 30	
	2021	2020	2021	2020
Revenue (note 12)	\$ 2,605,022	\$ 1,946,620	\$ 6,115,154	\$ 4,801,062
Cost of sales (note 13)	632,737	336,822	1,477,290	894,041
	1,972,285	1,609,798	4,637,864	3,907,021
Expenses (note 13)				
Research and development	556,021	438,201	1,766,367	1,396,229
General and administration	543,317	556,619	1,671,881	1,753,989
Sales and marketing	542,503	532,018	1,515,870	1,769,761
Depreciation and amortization	364,523	388,938	1,102,100	1,161,939
Transaction costs	197,351	-	197,351	-
	2,203,715	1,915,776	6,253,569	6,081,918
Loss from operations before other (income) expenses	(231,430)	(305,978)	(1,615,705)	(2,174,897)
Other (income) expenses				
Foreign exchange (gain) loss	30,436	45,243	114,095	(24,216)
Finance (income) expense (note 14)	3,610	(18,854)	3,812	(80,460)
Tenant income	(11,129)	-	(11,129)	(56,276)
Steam expense	-	-	-	74,245
	22,917	26,389	106,778	(86,707)
Net loss and total comprehensive loss	\$ (254,347)	\$ (332,367)	\$ (1,722,483)	\$ (2,088,190)
Basic and diluted loss per share:				
Net loss	\$ (0.00)	\$ (0.00)	\$ (0.02)	\$ (0.03)
Weighted average number of common shares				
Basic and diluted	69,399,861	69,200,125	69,399,861	69,200,125

See accompanying notes to the condensed interim financial statements.

Nanotech Security Corp.

Condensed Interim Statements of Financial Position
(Unaudited)

(In Canadian dollars)

	June 30, 2021	September 30, 2020
Assets		
Current assets:		
Cash and cash equivalents (note 11(c))	\$ 2,055,919	\$ 1,751,855
Short-term investments (note 4)	6,881,136	6,849,285
Accounts receivable	737,966	1,505,391
Inventory (note 5)	301,247	210,715
Prepaid expenses and other assets	225,399	324,974
Asset held for sale (note 6)	125,000	-
	<u>10,326,667</u>	<u>10,642,220</u>
Property, plant and equipment	14,117,014	15,089,496
Intangible assets (note 7)	93,750	-
Goodwill	1,388,458	1,388,458
Right-of-use asset	721,284	862,405
	<u>\$ 26,647,173</u>	<u>\$ 27,982,579</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities (note 10)	\$ 1,502,406	\$ 1,630,754
Deposits	36,401	56,069
Deferred revenue (note 8)	375,516	-
Current portion of lease liability	183,706	173,558
	<u>2,098,029</u>	<u>1,860,381</u>
Non-current liabilities:		
Lease liability	626,331	763,747
	<u>2,724,360</u>	<u>2,624,128</u>
Shareholders' equity:		
Share capital (note 9(a))	62,499,841	62,499,841
Contributed surplus (note 9(b))	3,695,498	3,408,653
Deficit	(42,272,526)	(40,550,043)
	<u>23,922,813</u>	<u>25,358,451</u>
	<u>\$ 26,647,173</u>	<u>\$ 27,982,579</u>

Related party transactions (note 10)

Commitments and contingencies (note 15)

Subsequent event (note 16)

See accompanying notes to the condensed interim financial statements.

Approved on behalf of the Board of Directors:

"D. Neil McDonnell"
D. Neil McDonnell, Director

"Ronan McGrath"
Ronan McGrath, Director

Nanotech Security Corp.

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

Three and nine months ended June 30, 2021 and 2020
(In Canadian dollars)

	Number of shares	Share capital	Contributed surplus	Deficit	Total shareholders' equity
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 9(b)(i))	-	-	262,942	-	262,942
Share-based compensation - RSUs (note 9(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
Balance as at October 1, 2020	69,399,861	\$ 62,499,841	\$ 3,408,653	\$ (40,550,043)	\$ 25,358,451
Net loss	-	-	-	(1,722,483)	(1,722,483)
Share-based compensation - options (note 9(b)(i))	-	-	203,040	-	203,040
Share-based compensation - RSUs (note 9(b)(ii))	-	-	83,805	-	83,805
Balance as at June 30, 2021	69,399,861	\$ 62,499,841	\$ 3,695,498	\$ (42,272,526)	\$ 23,922,813

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, 2021 and 2020

(In Canadian dollars)

	Three months ended June 30		Nine months ended June 30	
	2021	2020	2021	2020
Cash flows provided by (used in):				
Operating activities:				
Net loss	\$ (254,347)	\$ (332,367)	\$(1,722,483)	\$(2,088,190)
Items not involving cash:				
Depreciation and amortization (note 13)	379,783	400,354	1,133,239	1,207,195
Share-based compensation (note 13)	107,664	103,357	286,845	346,457
Unrealized foreign exchange gain (loss)	(4,218)	49,524	(35,277)	13,555
Finance (income) expense (note 14)	3,610	(18,854)	3,812	(80,460)
Other	(2,409)	(3,132)	(7,772)	(9,233)
Non-cash working capital changes (note 11(a))	742,290	(324,412)	1,178,299	(164,521)
Interest paid on lease liability	(9,395)	(11,278)	(29,668)	(34,000)
Interest received	7,998	34,862	57,952	120,720
Cash provided by (used in) operating activities	970,976	(101,946)	864,947	(688,477)
Investing activities:				
Purchase of property and equipment (note 11(d))	(90,692)	(304,652)	(325,554)	(769,071)
Purchase of intangible asset (note 11(d))	-	-	(85,000)	-
Net acquisition of short-term investments	(7,723)	(33,301)	(56,175)	(103,951)
Cash used in investing activities	(98,415)	(337,953)	(466,729)	(873,022)
Financing activities:				
Repayment of lease liability	(39,843)	(34,420)	(127,268)	(103,259)
Cash used in financing activities	(39,843)	(34,420)	(127,268)	(103,259)
Effect of foreign exchange on cash and cash equivalents	2,955	(61,734)	33,114	(17,886)
Increase (decrease) in cash and cash equivalents	835,673	(536,053)	304,064	(1,682,644)
Cash and cash equivalents, beginning of period	1,220,246	1,605,411	1,751,855	2,752,002
Cash and cash equivalents, end of period	\$ 2,055,919	\$ 1,069,358	\$ 2,055,919	\$ 1,069,358

See supplementary cash flow information (note 11)

See accompanying notes to the condensed interim financial statements.

Nanotech Security Corp.

Notes to the Condensed Interim Financial Statements
(Unaudited)

Three and nine months ended June 30, 2021 and 2020
(In Canadian dollars)

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 develops and produces nano-optic structures and colour-shifting foils 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 financial statements.

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 financial statements for the year ended September 30, 2020.

These condensed interim financial statements were approved and authorized for issue by the Company's Board of Directors on August 4, 2021.

(b) Basis of measurement

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

3. New standards and interpretations not yet adopted

Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)

In January 2020, IASB issued *Classification of Liabilities as Current or Non-Current*, which amends IAS 1 – *Presentation of Financial Statements*. The narrow scope amendments affect only the presentation of liabilities in the statement of financial position and not the amount or timing of its recognition. It clarifies that the classification of liabilities as current or non-current is based on rights that are in existence at the end of a reporting period and specifies that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability. It also introduces a definition of 'settlement' to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services. The amendments are effective for annual reporting periods beginning on or after January 1, 2022. Earlier application is permitted. The Company is assessing the potential impact of these amendments.

4. Short-term investments

Short-term investments of \$6,881,136 (September 30, 2020 - \$6,849,285) consist of cashable term deposits held with a Canadian chartered bank. The term deposits have maturity dates between July 21, 2021 and December 21, 2021. Interest rates range between 0.43% and 0.44%.

Nanotech Security Corp.

Notes to the Condensed Interim Financial Statements
(Unaudited)

Three and nine months ended June 30, 2021 and 2020
(In Canadian dollars)

5. Inventory

	June 30, 2021	September 30, 2020
Raw materials	\$ 122,643	\$ 179,034
Work in progress	45,833	30,281
Finished goods	132,771	1,400
	\$ 301,247	\$ 210,715

There were inventory write-downs of \$nil and \$17,648 expensed to materials consumed respectively during the three and nine months ended June 30, 2021 (June 30, 2020 - \$nil).

For the three months ended June 30, 2021, the Company recognized inventories of \$89,290 (June 30, 2020 - \$73,865) as expensed through cost of sales. For the nine months ended June 30, 2021, the Company recognized inventories of \$204,974 (June 30, 2020 - \$257,178) as expensed through cost of sales.

6. Asset held for sale

In October 2020, the Company completed a capital project to replace a propane heating system with an electric heating system and committed to a plan to sell the propane boiler. The Company previously recorded an impairment loss to reduce the carrying value of the boiler to the recoverable amount as at December 31, 2020, as measured by the expected net proceeds upon disposal. No further write-down was recorded and as at June 30, 2021, the propane boiler was reclassified from property, plant and equipment to a separate line on the balance sheet as asset held for sale.

7. Intangible assets

On January 15, 2021, the Company purchased six patents for \$100,000 and agreed to share 10% of any product revenues related to the patents from a specific customer for a period of two years as well as ongoing royalties of 3% to 6% on other revenues derived from the patents for a period of five years.

The intangible asset is capitalized at the cost of \$100,000 and is being amortized over four years according to the Company's depreciation policy.

Amortization for the three and nine months ended June 30, 2021 of \$3,125 and \$6,250 respectively (June 30, 2020 - \$nil) is included in depreciation and amortization expense.

8. Deferred revenue

Deferred revenue of \$375,516 as at June 30, 2021 relates to certain purchase orders received and prepaid by the customer for the Company's development contracts (September 30, 2020 - \$nil). These contract services are expected to be performed over the remainder of the Company's fiscal year and recognized as revenue by September 30, 2021.

9. 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, 2020 and June 30, 2021	69,399,861	\$ 62,499,841

There are no preferred shares issued and outstanding.

Nanotech Security Corp.

Notes to the Condensed Interim Financial Statements
(Unaudited)

Three and nine months ended June 30, 2021 and 2020
(In Canadian dollars)

9. 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, 2021:

	Number of options	Weighted average exercise price
Balance as at September 30, 2020	4,783,200	\$ 0.68
Granted	817,500	0.50
Forfeited	(191,700)	1.23
Cancelled	(795,000)	1.32
Balance as at June 30, 2021	4,614,000	\$ 0.52

The following table summarizes information pertaining to the Company's stock options outstanding as at June 30, 2021:

Range of exercise prices	Options outstanding			Options exercisable		
	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	2,741,500	3.59	\$ 0.40	1,815,875	\$ 0.40	
\$0.51 - \$0.75	1,587,500	2.63	0.61	1,487,500	0.61	
\$1.01 - \$1.25	250,000	0.84	1.10	250,000	1.10	
\$1.26 - \$1.50	35,000	1.14	1.43	35,000	1.43	
	4,614,000	3.09	\$ 0.52	3,588,375	\$ 0.54	

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, 2021 and 2020:

	Three months ended June 30		Nine months ended June 30	
	2021	2020	2021	2020
Risk free interest rate	0.9%	0.4%	0.4%	1.4%
Expected life	3.0 years	5.0 years	4.0 years	5.0 years
Expected volatility	34.9%	60.9%	70.8%	52.8%
Expected dividends	Nil	Nil	Nil	Nil
Average fair value	\$0.35	\$0.12	\$0.26	\$0.17

For the three and nine months ended June 30, 2021 and 2020, 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	
	2021	2020	2021	2020
Total compensation - stock options	\$ 73,961	\$ 73,717	\$ 203,040	\$ 262,942

Nanotech Security Corp.

Notes to the Condensed Interim Financial Statements
(Unaudited)

Three and nine months ended June 30, 2021 and 2020
(In Canadian dollars)

9. Share capital (continued)

(b) Share-based payment plans (continued)

(ii) Restricted share unit plan

RSUs outstanding as at June 30, 2021:

	Number of RSUs
Balance as at September 30, 2020	284,083
Granted	265,588
Balance as at June 30, 2021	549,671

For the three and nine months ended June 30, 2021 and 2020, 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	
	2021	2020	2021	2020
Total compensation - RSUs	\$ 33,703	\$ 29,640	\$ 83,805	\$ 83,515

10. Related party transactions

For the three and nine months ended June 30, 2021 and 2020, 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	
	2021	2020	2021	2020
Salaries, accrued bonuses, employee benefits and director fees	\$ 242,373	\$ 178,278	\$ 644,257	\$ 566,166
Share-based payments	52,827	60,972	139,818	201,098
	\$ 295,200	\$ 239,250	\$ 784,075	\$ 767,264

(b) As at June 30, 2021, amounts owing to directors for director fees and expense reimbursements included in accounts payable and accrued liabilities were \$75,786 (September 30, 2020 - \$58,619).

(c) The Company purchased six patents from a company owned by a director of the Company (note 7). Of the total purchase price, \$15,000 remains accrued as at June 30, 2021.

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

Nanotech Security Corp.

Notes to the Condensed Interim Financial Statements
(Unaudited)

Three and nine months ended June 30, 2021 and 2020
(In Canadian dollars)

11. Supplementary cash flow information

(a) Changes in non-cash working capital

	Three months ended June 30		Nine months ended June 30	
	2021	2020	2021	2020
Accounts receivable	\$ (28,455)	\$ (267,495)	\$ 664,218	\$ (291,671)
Inventory	(49,079)	(65,307)	(84,430)	5,767
Prepaid expenses and other assets	4,764	166,746	104,411	241,421
Accounts payable and accrued liabilities (note 11(d))	425,041	204,654	105,069	90,972
Deposits	14,503	(280,510)	13,515	(293,510)
Deferred revenue	375,516	(82,500)	375,516	82,500
	\$ 742,290	\$ (324,412)	\$ 1,178,299	\$ (164,521)

(b) Income taxes

The Company did not pay any income taxes during the three and nine months ended June 30, 2021 and 2020.

(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, 2021	September 30, 2020
Cash	\$ 829,570	\$ 1,026,845
Cash equivalents	1,226,349	725,010
	\$ 2,055,919	\$ 1,751,855

(d) Supplemental disclosure of non-cash investing activities

As at June 30, 2021, property, plant and equipment included in accounts payable was \$19,896 (June 30, 2020 - \$173,011).

As at June 30, 2021, intangible assets included in accrued liabilities was \$15,000 (June 30, 2020 - \$nil).

During the three months ended June 30, 2021, deposits of \$20,449 (June 30, 2020 - \$nil) were applied to property, plant and equipment. During the nine months ended June 30, 2021, deposits of \$33,183 (June 30, 2020 - \$nil) were applied to property, plant and equipment.

12. 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	
	2021	2020	2021	2020
Development contracts	\$ 2,315,641	\$ 1,495,812	\$ 5,628,372	\$ 3,983,857
Products and services	289,381	450,808	486,782	817,205
	\$ 2,605,022	\$ 1,946,620	\$ 6,115,154	\$ 4,801,062

For the three months ended June 30, 2021, revenues within Canada were \$18,000 (June 30, 2020 - \$43,105) and revenues outside Canada were \$2,587,022 (June 30, 2020 - \$1,903,515). For the nine months ended

Nanotech Security Corp.

Notes to the Condensed Interim Financial Statements
(Unaudited)

Three and nine months ended June 30, 2021 and 2020
(In Canadian dollars)

12. Revenue and segmented information (continued)

June 30, 2021, revenues within Canada were \$48,475 (June 30, 2020 - \$116,359) and revenues outside Canada were \$6,066,679 (June 30, 2020 - \$4,684,703).

During the three months ended June 30, 2021, the Company had one customer who represented greater than 10% of total revenues. This customer represented approximately 89% of total revenues (June 30, 2020 - two customers represented approximately 77% and 20% of total revenues). During the nine months ended June 30, 2021, the Company had one customer who represented greater than 10% of total revenues. This customer represented approximately 92% of total revenues (June 30, 2020 – two customers represented approximately 83% and 11% of total revenues).

13. 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 transaction costs. During the three and nine months ended June 30, 2021, the Company recorded \$18,190 in Canada Emergency Wage Subsidy relief related to COVID-19 (June 30, 2020 - \$183,754). This relief was accounted for as a government grant related to income in accordance with IAS 20. 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	
	2021	2020	2021	2020
Salaries and benefits	\$ 1,263,672	\$ 809,796	\$ 3,569,235	\$ 2,705,333
Share-based compensation	107,664	103,357	286,845	346,457
Depreciation and amortization	379,783	400,354	1,133,239	1,207,195
Travel and entertainment	13,302	6,625	21,688	218,238
Professional fees and insurance	244,355	358,663	771,452	942,350
Public company costs	151,061	82,917	389,486	254,529
Rent and utilities	135,721	147,332	471,211	475,284
Maintenance and office expenses	319,481	158,398	561,316	399,683
Materials consumed	221,413	185,156	526,387	426,890
	\$ 2,836,452	\$ 2,252,598	\$ 7,730,859	\$ 6,975,959

14. Finance income

	Three months ended June 30		Nine months ended June 30	
	2021	2020	2021	2020
Interest income from cash and cash equivalents and short-term investments	\$ (8,401)	\$ (32,571)	\$ (33,829)	\$ (122,339)
Interest paid on lease liability	9,395	11,278	29,668	34,000
Other interest expenses	2,616	2,439	7,973	7,879
	\$ 3,610	\$ (18,854)	\$ 3,812	\$ (80,460)

Nanotech Security Corp.

Notes to the Condensed Interim Financial Statements
(Unaudited)

Three and nine months ended June 30, 2021 and 2020
(In Canadian dollars)

15. Commitments and contingencies

- (a) As at June 30, 2021, the Company is committed to operating costs in respect of leased office space and contracted equipment maintenance for the following amounts:

2021	\$	66,980
2022		273,365
2023		204,964
2024		113,701
2025		62,307
	\$	721,317

- (b) Certain nano-optic products are subject to a 3% sales royalty in favour of Simon Fraser University (“SFU”) where certain elements of the nano-optic technology originated. For the three months ended June 30, 2021 there were royalties of \$28 (June 30, 2020 - \$nil). For the nine months ended June 30, 2021 there were royalties of \$324 (June 30, 2020 - \$2,504). In 2014, the Company prepaid royalties that would offset against future royalties owed as part of the transfer of the intellectual property from SFU, of which \$197,016 remains prepaid as at June 30, 2021 (September 30, 2020 - \$197,340).
- (c) Product revenue associated with the six patents acquired by the Company on January 15, 2021 is subject to royalties. The Company agreed to share 10% of any revenues related to the patents received from a specific customer for a period of two years and ongoing royalties of 3% to 6% on other revenues derived from the patents for a period of five years. There were no royalties during the three and nine months ended June 30, 2021 and 2020 (notes 7 and 10).
- (d) 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.

16. Subsequent event

On August 5, 2021, the Company announced that it has entered into an arrangement agreement with Meta Materials Inc. (“META®”)(NASDAQ: MMAT), a developer of high-performance functional materials and nanocomposites, pursuant to which META will acquire Nanotech for \$1.25 per common share in an all-cash transaction (the “Transaction”) valued at approximately \$90.8 million. The Board of Directors and its special committee of independent members have unanimously recommended that the shareholders vote in favour of the Transaction. The Transaction is subject to customary closing conditions, including approval by the Company’s securityholders. Subject to the satisfaction or waiver of all closing conditions, the transaction is expected to close in early October.

Further information about the Transaction is set out in the Company’s news release dated August 5, 2021 and other filings which are available under Nanotech’s profile on SEDAR at www.sedar.com.