

Nanotech Security Corp.

Nine Months Ended June 30, 2015

Management Discussion & Analysis and
Unaudited Condensed Consolidated Financial
Statements

NANOTECH
SECURITY CORP.

Nanotech Security Corp.

Management's Discussion and Analysis
For the three and nine months ended June 30, 2015

For purposes of this discussion "Nanotech", "the Company", "we", or "us" refers to Nanotech Security Corp. and its subsidiaries. This quarter means the three months ended June 30, 2015.

ADVISORY

This management's discussion and analysis ("MD&A"), dated as of August 19, 2015 should be read in conjunction with the cautionary statement regarding forward-looking statements below and the Company's condensed consolidated interim financial statements for the three and nine months ended June 30, 2015, as well as with the Company's consolidated financial statements and MD&A for the year ended September 30, 2014. The results reported herein have been prepared in accordance with International Financial Reporting Standards ("IFRS") and are presented in Canadian dollars. All quarterly information disclosed in the MD&A is based on unaudited figures.

Unless otherwise indicated, the Company's significant accounting policies and estimates, contractual obligations, commitments, contingencies, and business risks and uncertainties, as described in its MD&A for the year ended September 30, 2014, are substantially unchanged. The MD&A and condensed consolidated interim financial statements were reviewed by the Company's Audit Committee and approved by the Company's Board of Directors.

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 our operations in future periods, the adequacy of our 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 our market opportunities, strategies, competition, and the Company's views that its nano-optical technology will continue to show promise for mass production and commercial application. Other forward-looking statements imply that the Company will remain capable of being financed and/or will be able to partner development until commercial sales are eventually realized. The principal risks related to these forward looking statements are that the Company's intellectual property claims will not prove sufficiently broad or enforceable to provide the necessary commercial protection and to attract the necessary capital and/or that the Company's products will not be able to displace entrenched hologram, metalized strip tagging, and other conventional anti-counterfeiting technologies sufficiently to allow for profitability.

Our 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 assurance that actual results or developments we anticipate will be realized. For additional information with respect to certain of these risks or factors reference should be made to the "Business Risks" section of the MD&A and notes to the consolidated financial statements for the year ended September 30, 2014, 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, rule or regulation. You should not place undue reliance on forward-looking statements.

GENERAL OVERVIEW

Nanotech was incorporated under the laws of British Columbia, and is listed on the TSX Venture Exchange (trading symbol: NTS) and quoted in the United States on the OTCQX Market (trading symbol: NTSFF).

On May 1, 2015, the Company's head office relocated to Suite 505 - 3292 Production Way, Burnaby, BC, Canada V5A 4R4. The Company's registered and records office is Suite 1500 - 1055 West Georgia, Vancouver, BC, Canada V6E 4N7.

The Company operates its business through two business segments – Security Features and Surveillance. The Company's reportable segments are strategic business units that offer different products and services. They are managed separately because each business is in a different stage in its life cycle and they require different sales and marketing strategies.

Security Features

Security Features provides nano-optics and optical thin film ("OTF") for use in anti-counterfeiting and authentication processes and products including currency, legal documents, and commercial products. The Company conducts research at its Burnaby head office, its research and production facility in Thurso, QC, Canada and at 4D Labs nanofabrication facility, a Canadian federal government sponsored facility located at Simon Fraser University in Burnaby, BC.

The Security Features segment is developing nanotechnology and OTF for use in anti-counterfeiting and commercial product authentication systems. The Company is developing specialized optical features for use in banknotes and other products. The nanotechnology employs arrays of billions of nano-holes that are impressed or embossed onto a substrate material such as polymer and metal. These arrays yield unique light signatures (visual images) that cannot be easily reproduced by a third party without access to the technology and equipment needed to create the arrays. These optical features can be directly applied to banknotes and other valuable documents and products creating unique optical signatures that are both overt (naked-eye-visible) and machine (only) readable. These features are being designed to be suitable for a variety of other commercial security applications and branding formats. Images of these features are available on the Company's website at: www.nanosecurity.ca

Surveillance

Surveillance designs and sells a wide range of sophisticated surveillance and intelligence gathering equipment and conducts surveillance training for the law enforcement and defense industries in the United States and Canada. The Company conducts its research, production, and training at its facility in Holmes, PA, USA.

The Surveillance segment continues to build and outfit surveillance vans for undercover operations and delivers accredited classes in electronic surveillance. In the second half of 2014 the Company successfully launched the newly developed P-25 digital transmission system allowing federal, state and local law enforcement agencies to correspond with each other over a single frequency using both digital and analog frequencies. During the same period, the Company also released the Echo 8i which converts analog audio signals to digital, enabling secure, wireless smart-phone connectivity.

RESULTS OF OPERATIONS

The following table provides selected financial information for the three and nine months ended June 30, 2015 and 2014:

Selected Financial Information

	Three months ended June 30,		Nine months ended June 30,	
	2015	2014	2015	2014
Revenue	$ 1,359,088	$ 599,972	$ 4,424,440	$ 1,731,020
Cost of sales	660,784	416,158	2,479,866	1,157,404
	698,304	183,814	1,944,574	573,616
Expenses				
Research and development	906,774	538,334	2,710,728	1,438,012
General and administration	753,842	579,422	2,442,844	1,233,198
Sales and marketing	585,503	192,209	1,410,397	565,012
	2,246,119	1,309,965	6,563,969	3,236,222
Loss before other expenses	(1,547,815)	(1,126,151)	(4,619,395)	(2,662,606)
Other expenses (income)	(268,173)	(11,584)	(1,513,960)	4,354
Net loss	$ (1,279,642)	$ (1,114,567)	$ (3,105,435)	$ (2,666,960)

Revenue
Revenues for the three months ended June 30, 2015 increased by $759,116 to $1,359,088 compared to $599,972 in the same period last year. The increased revenues was largely attributed to revenue generated by the new Security Features business unit which delivered revenue of $865,219 primarily from the delivery of OTF and development contracts. The OTF production during the third quarter was impacted negatively as a large international customer reviewed its specification and entered into discussions with the Company for larger volumes of OTF and KolourOptik opportunities. These discussions have continued to delay the shipment of a partially produced order from the second quarter, however it is expected to ship in the fourth quarter and production is planned to resume late in the fourth quarter. The Surveillance business unit saw a modest decline over both the previous quarter and the same period last year, due largely to a delay in orders that were pushed off until the fourth quarter.

The revenues for the nine months ended June 30, 2015 increased by $2,693,420 to $4,424,440 compared to $1,731,020 in the same period last year. The increased revenues was again reflected in the revenue generated by the new Security Features business unit which delivered revenue of $2,775,185 primarily from the delivery of OTF and development contracts. The Surveillance business unit saw modest growth over the same period last year.

Gross Margin
Gross margin for the three months ended June 30, 2015 increased by $514,490 to $698,304 compared to $183,814 in the same period last year, and was consistent with the second quarter. The increase in gross margin compared to the same period last year, reflected the new revenue from the Security Features business unit and the improvement over the first quarter was as a result of a larger mix of higher priced OTF shipped during the quarter. Overall gross margin percentage was 51% for the three months ended June 30, 2015, an improvement from 31% in the same period last year, and 47% reported in the second quarter.

Gross margin for the nine months ended June 30, 2015, increased by $1,370,958 to $1,944,574 compared to $573,616 over the same period last year. The increase in gross margin, compared to the same period

last year, reflects the new revenue from the Security Features business unit. Overall, gross margin percentage improved to 44% compared to 33% for the same period in the prior year.

Research and Development
Research and development expenditures for the three months ended June 30, 2015 were $906,774, an increase of $368,440 compared to $538,334 in the same period last year. These costs included $340,312 of amortization of intangible assets in both periods, partially offset by government funding of $34,428 in the three months ended June 30, 2015 and $21,000 in the three months ended June 30, 2014.

Research and development expenditures for the nine months ended June 30, 2015 were $2,710,728, an increase of $1,272,716 compared to $1,438,012 in the same period last year and included $1,020,930 of amortization of intangible assets in both periods, partially offset by government funding of $116,790 in the nine months ended June 30, 2015 and $143,721 in the nine months ended June 30, 2014.

The overall increase in research and development activity in both the three and nine months ended June 30, 2015 reflected the acquisition of Fortress Optical Features Ltd. ("FOF") and its development activity which focused on new security features targeted for the bank note market.

General and Administration
General and administration expenditures for the three months ended June 30, 2015 were $753,842, an increase of $174,420 compared to $579,422 in the same period last year. General and administration expenditures for the nine months ended June 30, 2015 were $2,442,844, an increase of $1,209,646 compared to $1,233,198 for the same period last year.

The overall increase in general and administrative expense for the three and nine months ended June 30, 2015 reflects the acquisition of FOF and includes an increase in non-cash share based compensation, professional fees and depreciation. Depreciation of $224,802 was recorded for the three months ended June 30, 2015 (June 30, 2014 - $10,480) and $579,880 for the nine months ended June 30, 2015 (June 30, 2014 - $17,681).

Sales and Marketing
Sales and marketing expenditures for the three months ended June 30, 2015 were $585,503, an increase of $393,294 compared to $192,209 in the same period last year. Sales and marketing expenditures for the nine months ended June 30, 2015 were $1,410,397, an increase of $845,385 compared to $565,012 in the same period last year.

The increase in sales and marketing activities in the three and nine months ended June 30, 2015 reflect the new access to bank note sales channels acquired in the strategic acquisition of FOF. During the period, management focused a significant amount of activity defining and developing a new business relationship with a specific international customer. These meetings have been encouraging and the interest in a large volume of OTF and KolourOptik nanotechnology is very promising.

Net loss
The net loss for the three months ended June 30, 2015 increased to $1,279,642 compared to $1,114,567 during the same period last year. The net loss reflects an increase in gross margin of $514,490 largely related to new Security Features sales, partially offset by an increase in depreciation and amortization of $238,839 related to the production facility, a decrease in non-cash share based compensation of $52,566, an increase in sales and marketing expenses of $393,294, and increased overhead expenses including salaries and administrative costs. These were further offset by a gain on revaluation of contingent shares of $290,000 and a gain of $670,000 that reflects the July 17, 2015 settlement where the Company released 1.5 million shares of the current 3.0 million shares held in escrow, in exchange for cancelling the remaining 1.5 million shares and fully settling this obligation.

The net loss for the nine months ended June 30, 2015 increased from $2,666,960 to $3,105,435 compared to the same period last year. The net loss reflects an increase in gross margin of $1,370,958 largely related

to new Security Features sales, offset by an increase in depreciation and amortization of $706,552 related to the production facility, an increase in non-cash share based compensation of $326,665, an increase in sales and marketing expenses of $845,385 and increased overhead expenses including salaries and administrative costs. These were further offset by a gain on revaluation of contingent shares of $780,000 and a gain on settlement of $670,000.

RESULTS BY SEGMENT

The Company analyzes financial performance by segments, which regroup related activities within the Company. The Company's two reportable operating segments are Security Features and Surveillance. Inter-segment transactions have been eliminated from the segmented financial information discussed below.

Security Features
Security Features provides nano-optics and OTF for use in anti-counterfeiting, authentication processes and products including currency, legal documents, and commercial products.

	Three months ended June 30,		Nine months ended June 30,	
	2015	2014	2015	2014
Revenue	$ 865,219	$ -	$ 2,775,185	$ 8,718
Net loss	(1,239,453)	(1,133,260)	(3,143,072)	(2,668,664)

Revenues from Security Features for the three months ended June 30, 2015 increased to $865,219 from $NIL for the same period last year. Revenues from Security Features for the nine months ended June 30, 2015 increased to $2,775,185 from $8,718 for the same period last year. The increased revenue was primarily from the delivery of OTF and development contracts in the Thurso production facility.

The net loss from Security Features for the three months ended June 30, 2015 increased by $106,193 to $1,239,453 from $1,133,260 for the same period last year. The net loss from Security Features for the nine months ended June 30, 2015 increased by $474,408 to $3,143,072 from $2,668,664 for the same period last year. The increased net loss for both the three and nine month periods were as a result of increased depreciation related to the production facility used by the OTF business, an increase in general and administrative costs including office salaries and share-based compensation, and were offset by a gain on revaluation of contingent shares of $290,000 in the three months ended June 30, 2015 and $1,450,000 in the nine months ended June 30, 2015.

Surveillance
Surveillance designs and sells sophisticated surveillance and intelligence gathering equipment for the law enforcement and defense industries in the United States and Canada.

	Three months ended June 30,		Nine months ended June 30,	
	2015	2014	2015	2014
Revenue	$ 493,869	$ 599,972	$ 1,649,255	$ 1,722,302
Net income (loss)	(40,189)	18,693	37,637	1,704

Revenues from Surveillance for the three months ended June 30, 2015 decreased to $493,869 from $599,972 for the same period last year. Revenues from Surveillance for the nine months ended June 30, 2015 decreased to $1,649,255 from $1,722,302. The decreased revenue for both the three and nine months ended June 30, 2015 was a result of a decrease in the number of surveillance vans delivered.

Net loss from Surveillance for the three months ended June 30, 2015 was $40,189 compared to net income of $18,693 for the same period last year. Net income from Surveillance for the nine months ended June 30, 2015 was $37,637 compared to $1,704 for the same period last year.

QUARTERLY RESULTS

($ thousands, except common share amounts)	Q3 2015	Q2 2015	Q1 2015	Q4 2014	Q3 2014	Q2 2014	Q1 2014	Q4 2013
Revenue	$1,359	$1,533	$1,541	$488	$603	$578	$557	$459
Net income (loss)	(1,280)	(895)	(931)	2,285	(1,116)	(859)	(693)	(727)
Net income (loss) per common share –								
Basic	(0.03)	(0.02)	(0.02)	0.05	(0.03)	(0.02)	(0.02)	(0.02)
Diluted	(0.03)	(0.02)	(0.02)	0.04	(0.03)	(0.02)	(0.02)	(0.02)

There are no seasonal effects or other trends in the Company's business over the quarters presented. The net income in Q4 2014 was the result of a non-recurring deferred income tax recovery of $3,892,000. The recovery was triggered by the application of previously unrecognized income tax assets of the company being utilized to offset deferred tax liabilities which were created on the acquisitions of IDME Technologies Corp., IDIT Technologies Corp., and FOF.

The increased revenue in 2015 was as a result of revenues produced by the new Security Features business unit which commenced at the beginning of that fiscal year.

RELATED PARTY TRANSACTIONS

For the three months ended June 30, 2015, 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) The remuneration of key management personnel is as follows:

	Three months ended June 30,		Nine months ended June 30,	
	2015	2014	2015	2014
Salaries and employee benefits	$ 212,088	$ 50,010	$ 656,724	$ 150,030
Share based payments	127,801	40,320	339,233	40,320
	$ 339,889	$ 90,330	$ 995,957	$ 190,350

(b) Management fees totaling $89,250 for the three months ended June 30, 2015 (June 30, 2014 - $50,010) and $238,000 for the nine months ended June 30, 2015 (June 30, 2014 - $150,030) charged by a company controlled by an officer and director of the Company, were included in salaries and benefits expense. As of June 30, 2015, amounts owing to this company included in accounts payable and accrued liabilities were $305,066 (September 30, 2014 - $286,490).

(c) Legal and professional fees, taxes and disbursements totaling $40,963 for the three months ended June 30, 2015 (June 30, 2014 - $98,938) and $121,158 for the nine months ended June 30, 2015 (June 30, 2014 - $153,790) were incurred with a law firm of which a director of the Company is a partner. As of June 30, 2015, amounts owing to this company included in accounts payable and accrued liabilities were $192,163 (September 30, 2014 - $425,370).

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 operations, working capital, including supplier payables, capital expenditures, and fixed overhead costs. Cash is also used to finance other long term strategic business initiatives. As at June 30, 2015, cash and cash equivalents totaled $1,280,915, compared to $3,964,645 as at September 30, 2014.

Summary of Statement of Cash Flow

	Three months ended June 30,		Nine months ended June 30,	
	2015	2014	2015	2014
Cash used in operating activities[1]	$ (816,749)	$ (547,947)	$ (2,248,316)	$ (1,401,903)
Changes in operating assets and liabilities	279,331	(136,011)	(557,625)	(520,891)
Cash used in operating activities	(537,418)	(683,958)	(2,805,941)	(1,922,794)
Cash (used in) provided by investing activities	(407,663)	(64,136)	(666,347)	(62,223)
Cash provided by financing activities	133,255	197,800	869,230	225,925
Effect of foreign currency translation on cash and cash equivalents	8,718	(29,476)	(80,672)	31,108
Decrease in cash and cash and cash equivalents	(803,108)	(579,770)	(2,683,730)	(1,727,984)
Cash and cash equivalents, beginning of period	2,084,023	3,007,597	3,964,645	4,155,811
Cash and cash equivalents, end of period	$ 1,280,915	$ 2,427,827	$ 1,280,915	$ 2,427,827

[1] Before changes in operating assets and liabilities

Operating Activities

Cash used in operating activities was $537,418 for the three months ended June 30, 2015, compared to $683,958 for the same period last year. The cash used reflects $279,331 from a reduction in working capital and the remaining $816,749 representing the non-working capital cash used in operations.

Cash used in operating activities was $2,805,941 for the nine months ended June 30, 2015, compared to $1,922,794 for the same period last year. The cash used reflects $557,625 that was required for increased working capital with the remaining $2,248,316 representing the cash used in non-working capital operations.

Investing Activities

For the three months ended June 30, 2015, $407,663 was used in investing activities, compared to $64,136 used in the same period in 2014. For the nine months ended June 30, 2015, $666,347 was used in investing activities, compared to $62,223 used in the same period in 2014. The increase in investing activities is due to increased capital investments required to upgrade the OTF production equipment to improve efficiencies.

Financing Activities

For the three months ended June 30, 2015, $133,255 was provided by financing activities, compared to $197,800 received in the same period in 2014.

For the nine months ended June 30, 2015, $869,230 was provided by financing activities, compared to $225,925 received in the same period in 2014. This increase represented 817,750 share purchase warrants being exercised for proceeds of $735,975 and a tenant inducement of $133,255.

Capital Resources

	June 30, 2015	September 30, 2014
Cash and cash equivalents	$1,280,915	$3,964,645
Cash-based working capital	$1,530,162	$3,656,267
Long-term debt	$3,133,255	$6,100,000
Common shares outstanding	49,125,684	48,307,934

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 preserve financial flexibility in order to benefit from potential opportunities that may arise. Our principal cash requirements are for operations, working capital, and capital expenditures. The Company has recurring operating losses and an accumulated deficit of $21,723,842 as of June 30, 2015 and $18,618,407 as of September 30, 2014. The Company also expects to continue to incur substantial expenses relating to its research and development efforts in nano-optics. As a result, the Company expects to incur significant losses in the next year unless it is able to realize revenue after commercialization of its products under development. The timing and amount of such revenues, if any, cannot be predicted with certainty.

The Company's ability to continue as a going concern is dependent on its ability to obtain significant additional financing in order to meet its planned business objectives and to be able to commercialize products currently under development. The Company will need to raise funds and is pursuing additional funds through grants, strategic collaborations, public or private equity or debt financing, or other funding sources. This funding may not be available on acceptable terms, or at all, and may be dilutive to shareholder interests. However, there can be no assurance that the Company will be able to obtain additional financial resources. If the Company is unable to generate positive cash flows or obtain adequate financing, the Company will need to curtail operations and development activities. These factors may cast significant doubt regarding the Company's ability to continue as a going concern. Should the Company be unable to realize its assets and discharge its liabilities in the normal course of business the net realizable value of its assets may be materially less than the amounts on the statement of financial position.

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 are responsible for overseeing this process. In managing its capital the Company considers changes in economic conditions, risks that impact consolidated operations, and future significant capital investment opportunities. For the three months ended June 30, 2015, there were no other changes in our approach to capital management.

The Company had no commitments for material capital expenditures as of June 30, 2015.

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

On August 10, 2015 the Company announced it is proceeding with a non-brokered private placement of up to 2,500,000 units at a price of $1.00 per unit for total proceeds of up to $2,500,000. Each unit will consist of one common share in the capital of the Company and one-half of one common share purchase warrant. Each whole warrant will entitle the holder to purchase one common share at a price of $1.50 for a period of 18 months Management has reviewed its projected funding requirements and expects that through the generation and collection of revenues and/or being able to raise additional financing, that the Company will maintain sufficient liquidity to meet its operating requirements through June 30, 2016.

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 the Company's MD&A and consolidated financial statements for the year ended September 30, 2014. In the three months ended June 30, 2015, there was no material change to the nature of the risks arising from our classification of financial instruments, or related risk management objectives.

ADDITIONAL INFORMATION

Outlook

Nanotech is presently developing and seeking to market its authentication feature under several trademarks including *KolourOptik*™ *NOtES*™ (*Nano-Optic Technology for Enhanced Security*) and *Plasmogram*™. The Company anticipates that significant investment will be required to commercialize the technology. The Company may seek to involve third parties in joint venturing, partnering or otherwise funding such development activities failing which it will be required to seek to raise additional funds which will cause equity dilution to existing shareholders. The Company is currently presenting the technology to the bank note industry and other potential security authentication industry customers and is also working towards possible commercial licensing applications with third party specialists who supply security and brand recognition/protection features to the product marketplace. There can be no assurance that a successful product will be developed or that, if developed, any product will be commercially viable or competitive.

Risks & Uncertainties

For a complete list of risks and uncertainties related to the Company, please refer to the Company's MD&A for the year ended September 30, 2014, which is available on SEDAR at www.sedar.com.

Outstanding Share Data

The Company's articles of incorporation authorize the issuance of an unlimited number of common shares and an unlimited number of preferred shares.

The Company's outstanding share data as at August 19, 2015 is as follows:

Issued common shares	50,625,684
Warrants	3,645,426
Stock options outstanding	1,982,000
Restricted share units	421,433

Public Securities Filings

Additional information about Nanotech, is available on the Company's website at www.nanosecurity.ca or on SEDAR at www.sedar.com

Condensed Consolidated Interim Financial Statements of

Nanotech Security Corp.

Three and nine months ended June 30, 2015 and 2014
(Unaudited)

Nanotech Security Corp.
June 30, 2015 and 2014

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Nanotech Security Corp.

Condensed Consolidated Statements of Operations and Comprehensive Loss
(Unaudited)

(In Canadian dollars)

	Three months ended June 30,		Nine months ended June 30,	
	2015	2014	2015	2014
		(Restated - note 6(c))		(Restated - note 6(c))
Revenue	$ 1,359,088	$ 599,972	$ 4,424,440	$ 1,731,020
Cost of sales (note 12)	660,784	416,158	2,479,866	1,157,404
	698,304	183,814	1,944,574	573,616
Expenses (note 12)				
Research and development	906,774	538,334	2,710,728	1,438,012
General and administration	753,842	579,422	2,442,844	1,233,198
Sales and marketing	585,503	192,209	1,410,397	565,012
	2,246,119	1,309,965	6,563,969	3,236,222
Loss before other expenses	(1,547,815)	(1,126,151)	(4,619,395)	(2,662,606)
Other expenses (income)				
Foreign exchange (gain) loss	(8,321)	(10,626)	(160,192)	16,793
Finance expense (income)	30,148	(958)	96,232	(3,594)
Loss (gain) on revaluation of contingent shares	380,000	-	(780,000)	-
Gain on settlement of contingent shares	(670,000)	-	(670,000)	-
Gain on sale of fixed asset	-	-	-	(8,845)
	(268,173)	(11,584)	(1,513,960)	4,354
Net loss	(1,279,642)	(1,114,567)	(3,105,435)	(2,666,960)
Other comprehensive income (loss)				
Items that may be subsequently reclassified to earnings:				
Unrealized foreign exchange gain (loss) on translation of foreign operation	7,524	(30,698)	(76,239)	32,806
Total comprehensive loss for the period	$ (1,272,118)	$ (1,145,265)	$ (3,181,674)	$ (2,634,154)
Net loss per share:				
Basic and diluted	$ (0.03)	$ (0.03)	$ (0.06)	$ (0.07)
Weighted average number of common shares:				
Basic and diluted	49,125,684	39,023,657	48,735,041	38,848,286

See accompanying notes to condensed consolidated interim financial statements.

Nanotech Security Corp.

Condensed Consolidated Statements of Financial Position
(Unaudited)

(In Canadian dollars)

	June 30, 2015	September 30, 2014
Assets		
Current assets:		
Cash and cash equivalents	$ 1,280,915	$ 3,964,645
Accounts receivable	1,562,348	526,410
Inventory	607,178	598,526
Prepaid expenses and other assets	152,155	188,858
	3,602,596	5,278,439
Property, plant and equipment	18,933,398	18,995,321
Intangible assets	3,066,091	4,087,634
Goodwill (note 6)	1,388,458	1,388,458
	$ 26,990,543	$ 29,749,852
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 2,072,434	$ 1,597,172
Deferred revenue	-	25,000
Contingent consideration shares (note 7 and 13)	1,650,000	-
	3,722,434	1,622,172
Long term liabilities:		
Note payable	3,000,000	3,000,000
Tenant inducement (note 7)	133,255	-
Contingent consideration shares (note 7 and 13)	-	3,100,000
	6,855,689	7,722,172
Shareholders' equity		
Share capital (note 9)	40,293,041	39,557,066
Share based payment reserve	1,696,443	1,143,570
Deficit	(21,723,842)	(18,618,407)
Accumulated other comprehensive loss	(130,788)	(54,549)
	20,134,854	22,027,680
	$ 26,990,543	$ 29,749,852

Nature of operations and going concern (note 1)
Subsequent events (note 13)
See accompanying notes to condensed consolidated interim financial statements.

Nanotech Security Corp.

Condensed Consolidated Statements of Changes in Equity
(Unaudited)

Nine months ended June 30, 2015 and 2014
(In Canadian dollars)

	Number of shares	Share capital	Share based payment reserve	Reserve for contingent shares to be issued on acquisition	Deficit	Accumulated other comprehensive income (loss)	Total shareholders' equity	Non-controlling interest	Total equity
Balance as at September 30, 2013	38,756,136	$ 26,102,165	$ 755,138	$ 307,715	$ (18,124,376)	$ (11,629)	$ 9,029,013	$ (14,924)	$ 9,014,089
Net loss	-	-	-	-	(2,666,960)	-	(2,666,960)	-	(2,666,960)
Unrealized foreign exchange gain (loss) on translation	-	-	-	-	-	32,806	32,806	-	32,806
Warrants exercised	31,250	28,125	-	-	-	-	28,125	-	28,125
Options exercised	247,250	291,364	(93,564)	-	-	-	197,800	-	197,800
Share based payments	-	-	226,208	-	-	-	226,208		226,208
Shares issued on acquisition of non-controlling interest	60,000	96,000	-	-	(96,000)	-	-	-	-
Acquisition of non-controlling interest	-	-	-	-	(14,924)	-	(14,924)	14,924	-
Contingent shares issued on acquisition	234,897	307,715	-	(307,715)	-	-	-	-	-
Balance as at June 30, 2014	39,329,533	$ 26,825,369	$ 887,782	$ -	$ (20,902,260)	$ 21,177	$ 6,832,068	$ -	$ 6,832,068

	Number of shares	Share capital	Share based payment reserve	Reserve for contingent shares to be issued on acquisition	Deficit	Accumulated other comprehensive income (loss)	Total shareholders' equity	Non-controlling interest	Total equity
Balance as at September 30, 2014	48,307,934	$ 39,557,066	$ 1,143,570	$ -	$ (18,618,407)	$ (54,549)	$ 22,027,680	$ -	$ 22,027,680
Net loss	-	-	-	-	(3,105,435)	-	(3,105,435)	-	(3,105,435)
Unrealized foreign exchange gain (loss) on translation	-	-	-	-	-	(76,239)	(76,239)	-	(76,239)
Warrants exercised (note 9)	817,750	735,975	-	-	-	-	735,975	-	735,975
Share based payments	-	-	552,873	-	-	-	552,873	-	552,873
Balance as at June 30, 2015	49,125,684	$ 40,293,041	$ 1,696,443	$ -	$ (21,723,842)	$ (130,788)	$ 20,134,854	$ -	$ 20,134,854

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See accompanying notes to condensed consolidated interim financial statements.

Nanotech Security Corp.

Condensed Consolidated Statements of Cash Flows
(Unaudited)

(In Canadian dollars)

	Three months ended June 30,		Nine months ended June 30,	
	2015	2014	2015	2014
Operating activities:				
Net loss	$ (1,279,642)	$ (1,114,567)	$ (3,105,435)	$ (2,666,960)
Items not involving cash:				
Depreciation and amortization	592,688	353,849	1,754,246	1,047,694
Share based compensation	160,205	212,771	552,873	226,208
Gain on revaluation of contingent shares	(290,000)	-	(1,450,000)	-
Gain on sale of asset	-	-	-	(8,845)
Non-cash working capital changes (note 10)	279,331	(136,011)	(557,625)	(520,891)
Cash used in operating activities	(537,418)	(683,958)	(2,805,941)	(1,922,794)
Investing activities:				
Purchase of property and equipment	(407,663)	(64,136)	(666,347)	(62,223)
Cash used in investing activities	(407,663)	(64,136)	(666,347)	(62,223)
Financing activities:				
Issuance of shares for options exercised	-	197,800	-	197,800
Issuance of shares for warrants exercised	-	-	735,975	28,125
Tenant inducement	133,255	-	133,255	-
Cash provided by financing activities	133,255	197,800	869,230	225,925
Effect of foreign exchange on cash and cash equivalents	8,718	(29,476)	(80,672)	31,108
Decrease in cash and cash equivalents	(803,108)	(579,770)	(2,683,730)	(1,727,984)
Cash and cash equivalents, beginning of period	2,084,023	3,007,597	3,964,645	4,155,811
Cash and cash equivalents, end of period	$ 1,280,915	$ 2,427,827	$ 1,280,915	$ 2,427,827

See accompanying notes to condensed consolidated interim financial statements.

1. Summary of business and nature of operations:

(a) 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 is a global security features company, providing light based recognition nanotechnology and optical thin film ("OTF") for use in anti-counterfeiting and authentication processes and products including currency, legal documents, and commercial products. Its wholly-owned subsidiary, Tactical Technologies Inc. ("TTI"), designs and sells sophisticated surveillance and intelligence gathering equipment for the law enforcement and defense industries in the United States and Canada.

(b) Nature of operations and going concern

These condensed consolidated interim financial statements have been prepared on the basis that the Company will continue as a going concern. The Company has recurring operating losses and an accumulated deficit of $21,723,842 as of June 30, 2015 ($18,618,407 as of September 30, 2014). The Company also expects to continue to incur substantial expenses relating to its research and development efforts in nano-optics and OTF. As a result, the Company expects to incur significant losses in the next few years until it is able to realize revenue following the recent commercialization of its products. The timing and amount of such revenues, if any, cannot be predicted with certainty.

The Company's ability to continue as a going concern is dependent on its ability to generate revenues or additional financing in order to meet its planned business objectives and to be able to commercialize future products currently in development. The Company may need to raise funds through grants, strategic collaborations, public or private equity, debt financing, or other funding sources. This funding may not be available on acceptable terms, or at all, and may be dilutive to shareholder interests. If the Company is unable to generate positive cash flows or obtain adequate financing, the Company may need to curtail operations and development activities. These factors cast significant doubt on the Company's ability to continue as a going concern. Should the Company be unable to realize its assets and discharge its liabilities in the normal course of business the net realizable value of its assets may be materially less than the amounts on the statement of financial position.

2. Basis of preparation:

These condensed consolidated interim financial statements were prepared using the same accounting policies and methods as those used in the Company's consolidated financial statements for the year ended September 30, 2014, except as described in note 3. These condensed consolidated interim financial statements have been prepared in compliance with IAS 34 – *Interim Financial Reporting*. Accordingly, certain disclosures normally included in annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") have been omitted or condensed. These condensed consolidated interim financial statements should be read in conjunction with the Company's consolidated financial statements for the year ended September 30, 2014, which are included in the Company's 2014 annual report.

2. Basis of preparation (continued):

These condensed consolidated interim financial statements include the accounts of the Company and its wholly-owned subsidiary, TTI. All intercompany balances and transactions are eliminated on consolidation. The financial statements of the subsidiary are included in the consolidated financial statements from the date that control commences.

The Company acquired 100% of IDIT Technologies Corp. ("IDIT") and 95% of IDME Technologies Corp. ("IDME") on September 27, 2013 and the remaining 5% of IDME on May 5, 2014. On September 29, 2014, the Company underwent a reorganization whereby 100% of the assets and liabilities of IDIT and IDME were wound up into the Company and IDME and IDIT were dissolved.
The Company acquired 100% of Fortress Optical Features Ltd. ("FOF") on September 16, 2014. Subsequently on October 1, 2014, FOF was amalgamated into the Company.
These condensed consolidated interim financial statements were approved by the Company's Board of Directors and authorized for issue on August 19, 2015.

3. Significant accounting policy:

During the three months ended March 31, 2015 the Company adopted a Restricted Share Unit ("RSU") Plan. The Company measures the cost of equity-settled share based transactions by reference to the fair value of the equity instruments at the date at which they are granted. For RSUs, the Company uses the TSX Venture Exchange share price at the grant date as fair value of the RSUs. The resulting fair value is then adjusted for an estimated forfeiture amount. Determination of the forfeiture rate is based on historical experience. The actual number of RSUs that vest is likely to be different from estimation.

4. New standards and interpretations not yet adopted:

IFRS 9 - *Financial Instruments:*

In November 2013, the IASB issued IFRS 9 - *Financial Instruments (Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39)*. IFRS 9 (2009) establishes the measurement and classification of financial assets. Financial assets are measured either at fair value through earnings or at amortized cost if certain conditions are met. IFRS 9 (2010) includes guidance on the classification and measurement of financial liabilities. The most recent amendment, IFRS 9 (2013) includes a new general hedge accounting model which will align hedge accounting more closely with risk management. The effective date of this standard is January 1, 2018. The Company is currently evaluating the impact of IFRS 9 on its financial statements and expects to apply the standard to its financial statements beginning October 1, 2018.

IFRS 15 – *Revenue from contracts with customers:*

In May 2014, the IASB issued IFRS 15 – *Revenue from contracts with customers* which sets out the principles for when revenue should be recognized and how it should be measured, together with related disclosures. The new standard replaces all current revenue standards and interpretations in IFRS and is effective for fiscal periods beginning on or after January 1, 2018. The new standard is to be applied retrospectively. The Company is currently evaluating the impact of IFRS 15 on its financial statements and expects to apply this new standard to its financial statements beginning on October 1, 2018.

5. Comparative information:

The Company reclassified certain items in the condensed consolidated interim statements of operations and comprehensive loss to conform to the current period's presentation. This reclassification had no impact on the net loss or total comprehensive loss.

6. Acquisitions of IDME and IDIT:

(a) On September 27, 2013, pursuant to a share exchange agreement for a combined transaction, the Company completed the acquisition of controlling interests in two privately held British Columbia corporations, IDIT and IDME, from which the Company had sublicensed its anti-counterfeiting technology. As consideration, the Company agreed to issue a total of 3,940,000 common shares in exchange for 100% of the issued and outstanding common shares of IDIT and 95% of the issued and outstanding common shares of IDME. The fair value of the equity shares issued was based on the market value of Nanotech's traded shares on September 27, 2013, the acquisition date.

The fair value of the net assets acquired does not include certain common shares of the Company still registered in the name of IDME as of September 30, 2013 because these shares had been reserved for distribution to the former shareholders of IDME prior to the date of acquisition.

Two of the Company's directors and a Vice President were among the vendors of the IDIT and IDME common shares for total of 3,740,000 shares. Included in the 3,940,000 common shares issuable are 234,897 common shares issuable subject to prior approval of the Company's disinterested shareholders (the "Contingent shares") as the Company did not have sufficient authorized shares at the acquisition date. At the Annual General Meeting held on April 16, 2014, the disinterested shareholders voted to approve the issuance of the shares. These shares were issued in June 2014. All common shares issued by the Company in connection with the acquisition will be escrowed and the escrow will allow for 25% semi-annual releases over two years from closing starting six months from closing.

The acquisition eliminates a 6% gross revenue royalty on product sales and also results in the Company acquiring direct ownership of the principal nanotechnology patents, as well as ownership of additional intellectual property in related fields. The Company's products and services will now be subject to a 3% sales royalty in favour of Simon Fraser University where elements of the nanotechnology originated.

The acquisition of IDIT and IDME in a combined transaction, have been accounted for using the purchase method with the provisional fair values of the assets acquired, and liabilities assumed.

(b) On May 5, 2014, the Company acquired, by exercising a compulsory acquisition right, the remaining 5% of IDME shares from Simon Fraser University. The Company now owns 100% of IDME. As consideration the Company agreed to issue a total of 60,000 common shares in exchange for the remaining 5% of the issued and outstanding common shares of IDME. The fair value of the equity shares issued was based on the market value of Nanotech's traded shares on May 5, 2014, the acquisition date, and was accounted for as a separate transaction with the charge going directly against deficit.

(c) On September 27, 2013, the Company recognized the major classes of assets acquired and liabilities assumed at the acquisition date based on estimated fair values. During the year ended September 30, 2014, the Company finalized the provisional amounts in the initial purchase price allocation and finalized the estimated fair value of intellectual property acquired that resulted in an increase to intangible assets of $5,444,954, an increase to deferred tax liability of $1,388,458, and a corresponding decrease to goodwill of $4,056,496.

6. Acquisitions of IDME and IDIT (continued):

As prescribed by IFRS 3, these adjustments were applied retrospectively to the acquisition date of September 27, 2013 and as a result of the amortization of the intangible assets, research and development expense for the three and six month period ended March 31, 2014 increased by $340,609 and $680,619 respectively from the amount previously reported.

The following table summarizes the fair value of the consideration transferred and the final purchase price allocation based on estimated fair values of the major classes of assets acquired and liabilities assumed at the acquisition date:

3,705,103 common shares at $1.31 per share	$ 4,853,685
234,897 contingent common shares at $1.31 per share	307,715
Fair value of equity consideration	$ 5,161,400
Non-controlling interest - proportionate share of net assets	$ 14,924
Recognized amounts of identifiable net assets:	
Accounts receivable	487,406
Property and equipment	2,550
Intangible assets	5,444,954
Goodwill	1,388,458
Accounts payable and accrued liabilities	(788,434)
Deferred income tax	(1,388,458)
Fair value of net identifiable assets acquired	$ 5,161,400

The Company incurred acquisition related costs of $49,852 related to professional fees which have been expensed as incurred.

7. Acquisition of FOF:

On September 16, 2014 pursuant to a share and loan purchase agreement (“the Purchase Agreement”) with an arm’s-length vendor, the Company completed a transaction to acquire 100% of the issued and outstanding shares of FOF, a producer of OTF used as security threads in banknotes in several countries. Under the terms of the Purchase Agreement, the Company paid $7,179,822 cash, issued 5 million common shares of Nanotech and a secured note of $3,000,000 with an interest rate of 4% per annum. Of this consideration, 3 million common shares are escrowed and shall be released based on certain specific performance milestones based on sales of product to new customers over up to five years and thus represent contingent consideration as defined in IFRS 3. Shares may be released early in the event of a sale of the business or change of control of the Company and any unearned shares will be returned to the Company.

The Purchase Agreement included a post-completion requirement for FOF to enter into a lease agreement whereby a majority of its building will be leased to an affiliate of the vendor for up to 10 years, to enter into a shared services agreement whereby FOF and an affiliate of the vendor will share certain utility and security services, and a supply agreement whereby another affiliate of the vendor will have the right to purchase product from FOF on most favoured basis subject to certain minimum purchase commitments.

7. Acquisition of FOF (continued):

Concurrent with the FOF acquisition, the Company also completed a private placement of 6,772,151 subscription receipts of the Company (the "Subscription Receipts") at a price of $1.50 per Subscription Receipt, for gross proceeds to the Company of $10,158,227. The Subscription Receipts were automatically converted, without additional payment, into one common share and one-half of a common share purchase warrant of the Company for each Subscription Receipt concurrent with completion of the FOF acquisition. Each whole purchase warrant entitles the holder to purchase one common share of the Company at a price of $1.90 for a period of one year from issuance. The warrants are subject to accelerated expiry in the event that the common shares of the Company trade in excess of $2.25 for a ten day period after the four month resale restricted period expires.

On September 30, 2014, the Company recognized the major classes of assets acquired and liabilities assumed at the acquisition date based on estimated fair values. The following table summarizes the preliminary fair value of the consideration transferred and the purchase price allocation based on estimated fair values of the major classes of assets acquired and liabilities assumed at the acquisition date.

Cash	$ 7,179,822
Secured note	3,000,000
2,000,000 common shares at $1.59 per share	3,180,000
3,000,000 contingent consideration common shares (note 13)	3,180,000
Fair value of consideration	$ 16,539,822

Cash	$ 118,822
Inventory	274,721
Accounts receivable	87,973
Manufacturing equipment	15,144,236
Building	3,619,100
Land	141,700
Accounts payable and accrued liabilities	(342,738)
Deferred income tax	(2,503,992)
Fair value of net identifiable assets acquired	$ 16,539,822

The Company incurred acquisition related costs of $258,376 related to professional fees which have been expensed as incurred.

8. Related party transactions:

(a) The remuneration of key management personnel is as follows:

	Three months ended June 30,		Nine months ended June 30,	
	2015	2014	2015	2014
Salaries and employee benefits	$ 212,088	$ 50,010	$ 656,724	$ 150,030
Share based payments	127,801	40,320	339,233	40,320
	$ 339,889	$ 90,330	$ 995,957	$ 190,350

(b) Management fees totaling $89,250 for the three months ended June 30, 2015 (June 30, 2014 – $50,010) and $238,000 for the nine months ended June 30, 2015 (June 30, 2014 - $150,030) charged by a company controlled by an officer and director of the Company, were included in salaries and benefits expense. As of June 30, 2015, amounts owing to this company included in accounts payable and accrued liabilities were $305,066 (September 30, 2014 - $286,490).

(c) Legal and professional fees, taxes and disbursements totaling $40,963 for the three months ended June 30, 2015 (June 30, 2014 - $98,938) and $121,158 for the nine months ended June 30, 2015 (June 30, 2014 - $153,790) were incurred with a law firm of which a director of the Company is a partner. As of June 30, 2015, amounts owing to this company included in accounts payable and accrued liabilities were $192,163 (September 30, 2014 - $425,370).

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.

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, 2014	48,307,934	$ 39,557,066
Warrants exercised	817,750	735,975
Balance as at June 30, 2015	49,125,684	$ 40,293,041

(b) Stock option plan:

Stock options outstanding as at June 30, 2015 are as follows:

	Number of options	Weighted average exercise price
Balance, September 30, 2014	1,567,000	$ 1.38
Granted	480,000	1.15
Forfeited	(115,000)	1.58
Balance, June 30, 2015	1,932,000	$ 1.31

9. Share capital (continued):

The following table summarizes information pertaining to the Company's stock options outstanding at June 30, 2015:

	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 - $0.80	482,000	0.98	$0.80	482,000	$0.80
$0.81 - $1.75	1,450,000	3.90	1.48	817,500	1.57
	1,932,000	3.17	$1.31	1,299,500	$1.28

The weighted average assumptions used to estimate the fair value of options granted during the period ended June 30, 2015 and 2014 are as follows:

	Three months ended June 30,		Nine months ended June 30,	
	2015	2014	2015	2014
Risk free interest rate	-	1.65%	0.7%	1.53%
Expected life	-	4.25	4.4	3.83
Vesting period	-	1.5 years	1.5 years	1.6 years
Expected volatility	-	66%	54%	65%
Expected dividends	-	Nil	Nil	Nil
Average fair value	-	$0.84	$0.49	$0.78
Forfeiture rate	-	9.0%	8.3%	9.0%

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 the share based payment reserve:

	Three months ended June 30,		Nine months ended June 30,	
	2015	2014	2015	2014
Total compensation – stock options	$ 72,831	$ 212,771	$ 406,667	$ 226,208

(c) Restricted Share Unit Plan:

On January 27, 2015, the Company granted 423,955 Restricted Share Units ("RSUs") to employees and directors with a fair value of $1.15 per share. 25% of the RSUs will vest on September 1, 2015, 35% will vest on September 1, 2016 and the remaining 40% will vest on September 1, 2017.

9. Share capital (continued):

RSUs outstanding as at June 30, 2015 are as follows:

	Number of RSUs	Weighted average exercise price
Balance as at September 30, 2014	-	$ -
Granted	423,955	1.15
Forfeited	(2,522)	1.15
Balance as at June 30, 2015	421,433	$ 1.15

Using an estimated forfeiture rate of 10.0% for the three and nine months ended June 30, 2015, the Company charged the following share based payments to operating expenses in connection with the Company's RSU plan, with a corresponding increase in the share based payment reserve:

	Three months ended June 30,		Nine months ended June 30,	
	2015	2014	2015	2014
Total compensation - RSUs	$ 87,374	$ -	$ 146,206	$ -

(d) Warrants:

Warrants outstanding as at June 30, 2015 are as follows:

	Number of warrants	Weighted average exercise price
Balance as at September 30, 2014	6,013,176	$ 1.49
Exercised	(817,750)	0.90
Expired	(1,550,000)	0.90
Balance as at June 30, 2015	3,645,426	$ 1.87

The following table summarizes information pertaining to the Company's warrants outstanding at June 30, 2015:

	Number of warrants	Exercise price	Warrant expiry date
Work fee warrants	259,350	$1.50	September 12, 2015
Private placement warrants	3,386,076	1.90	September 12, 2015
	3,645,426		

10. Supplementary cash flow information:

(a) Change in non-cash operating working capital:

	Three months ended June 30,		Nine months ended June 30,	
	2015	2014	2015	2014
Accounts receivable	$ (201,885)	$ (21,272)	$ (1,035,938)	$ (17,656)
Inventory	116,824	72,661	(8,652)	17,150
Prepaid expenses and other assets	75,139	(5,364)	36,703	(56,437)
Accounts payable and accrued liabilities	289,253	(182,036)	475,262	(463,948)
Deferred revenue	-	-	(25,000)	-
	$ 279,331	$ (136,011)	$ (557,625)	$ (520,891)

(b) Interest and income taxes:

During the nine months ended June 30, 2015, the Company paid $93,384 in interest (2014 - $NIL) and the Company did not pay any income taxes.

(c) Cash and cash equivalents:

Cash and cash equivalents are comprised of:

	June 30, 2015	September 30, 2014
Cash	$ 580,915	$ 1,464,645
Term deposit	700,000	2,500,000
	$ 1,280,915	$ 3,964,645

11. Segmented information:

Segmented information is prepared using the accounting policies described in note 17 of the Company's consolidated financial statements for the year ended September 30, 2014. The Company's business operates primarily through two business segments – Security Features and Surveillance. Security Features provides nano-optics and OTF for use in anti-counterfeiting and authentication processes and products including currency, legal documents, and commercial products. Surveillance designs and sells sophisticated surveillance and intelligence gathering equipment for the law enforcement and defense industries in the United States and Canada.

During the three months ended June 30, 2015, the Company had three customers who represented greater than 10% each of total revenues. Those customers represented approximately 41%, 18% and 18% respectively of the total revenues and had sales from our Security Features and Surveillance segments. (2014 –four customers represented approximately 20%, 14%, 12%, and 11% respectively of the total revenues from our Surveillance segment).

11. Segmented information (continued):

During the nine months ended June 30, 2015, the Company had three customers who represented greater than 10% each of total revenues. Those customers represented approximately 17%, 16% and 13% of total revenues and had sales from our Security Features segment. (2014 - two customers represented approximately 10% and 18% of the total revenue from our Surveillance segment).

June 30, 2015	Security Features	Surveillance	Total
Total current assets	$ 2,948,517	$ 654,079	$ 3,602,596
Property, plant and equipment	18,885,903	47,495	18,933,398
Intangible assets	3,062,786	3,305	3,066,091
Goodwill	1,388,458	-	1,388,458
Total current liabilities	3,453,043	269,391	3,722,434
Total liabilities	6,586,298	269,391	6,855,689

September 30, 2014	Security Features	Surveillance	Total
Total current assets	$ 4,669,919	$ 608,520	$ 5,278,439
Property, plant and equipment	18,956,599	38,722	18,995,321
Intangible assets	4,083,716	3,918	4,087,634
Goodwill	1,388,458	-	1,388,458
Total current liabilities	1,465,888	156,284	1,622,172
Total liabilities	7,565,888	156,284	7,722,172

Three months ended June 30, 2015	Security Features	Surveillance	Total
Revenue	$ 865,219	$ 493,869	$ 1,359,088
Cost of sales	314,121	346,663	660,784
Gross profit	551,098	147,206	698,304
Expenses	2,039,117	207,002	2,246,119
Other income	(248,566)	(19,607)	(268,173)
Net loss	$ (1,239,453)	$ (40,189)	$ (1,279,642)

Three months ended June 30, 2014	Security Features	Surveillance	Total
Revenue	$ -	$ 599,972	$ 599,972
Cost of sales	6,449	409,709	416,158
Gross profit (loss)	(6,449)	190,263	183,814
Expenses	1,126,404	183,561	1,309,965
Other expenses (income)	407	(11,991)	(11,584)
Net income (loss)	$ (1,133,260)	$ 18,693	$ (1,114,567)

11. Segmented information (continued):

Nine months ended June 30, 2015	Security Features	Surveillance	Total
Revenue	$ 2,775,185	$ 1,649,255	$ 4,424,440
Cost of sales	1,342,444	1,137,422	2,479,866
Gross profit	1,432,741	511,833	1,944,574
Expenses	5,943,593	620,376	6,563,969
Other income	(1,367,780)	(146,180)	(1,513,960)
Net income (loss)	$ (3,143,072)	$ 37,637	$ (3,105,435)

Nine months ended June 30, 2014	Security Features	Surveillance	Total
Revenue	$ 8,718	$ 1,722,302	$ 1,731,020
Cost of sales	7,106	1,150,298	1,157,404
Gross profit	1,612	572,004	573,616
Expenses	2,671,578	564,644	3,236,222
Other expenses (income)	(1,302)	5,656	4,354
Net income (loss)	$ (2,668,664)	$ 1,704	$ (2,666,960)

12. Nature of expenses:

Cost of sales and expenses are comprised of the following:

	Three months ended June 30,		Nine months ended June 30,	
	2015	2014	2015	2014
Cost of sales				
Direct cost of sales	633,210	413,101	2,326,430	1,148,321
Depreciation and amortization	27,574	3,057	153,436	9,083
	660,784	416,158	2,479,866	1,157,404
Research and development				
Direct expenses	600,890	219,022	1,806,588	560,803
Depreciation and amortization	340,312	340,312	1,020,930	1,020,930
Government grants	(34,428)	(21,000)	(116,790)	(143,721)
	906,774	538,334	2,710,728	1,438,012
General and administration				
Direct expenses	529,040	568,942	1,862,964	1,215,517
Depreciation and amortization	224,802	10,480	579,880	17,681
	753,842	579,422	2,442,844	1,233,198
Sales and marketing				
Direct expenses	585,503	192,209	1,410,397	565,012
	585,503	192,209	1,410,397	565,012
Supplementary information				
Salaries and benefits	1,592,515	444,488	3,876,318	1,271,906
Share based compensation	160,205	212,771	552,873	226,208

13. Subsequent events:

(a) On July 17, 2015 the Company entered into a Settlement Agreement which amended the September 16, 2014 Purchase Agreement (see note 7). Under the Settlement Agreement, the parties have agreed that 1.5 million of the 3.0 million shares held in escrow, pending achievement of certain sales milestones, will be released from escrow immediately with the remaining 1.5 million shares cancelled. This resulted in a loss on the revaluation of the contingent share obligation of $380,000 and a gain on the settlement of the obligation of $670,000 for the three months ended June 30, 2015 and a gain on the revaluation of the contingent share obligation of $780,000 and a gain on the settlement of the obligation of $670,000 for the nine months ended June 30, 2015.

(b) On August 10, 2015 the Company announced it is proceeding with a non-brokered private placement of up to 2,500,000 units at a price of $1.00 per unit for total proceeds of up to $2,500,000. Each unit will consist of a common share and one-half warrant. Each whole warrant will entitle the holder to purchase one common share at a price of $1.50 for a period of 18 months. The warrants are subject to accelerated expiry in the event that the common shares of the company trade on the TSX Venture Exchange at $1.80 for a ten consecutive day period after the four month resale restricted period.