Nanotech Security Corp.

Third Quarter Report 2014

Three and Nine Months Ended June 30, 2014

Management Discussion & Analysis and
Unaudited Consolidated Financial Statements

NANOTECH
SECURITY CORP.

Nanotech Security Corp.

Management's Discussion and Analysis
For the three and nine months ended June 30, 2014

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, 2014. Year to date means the nine months ended June 30, 2014.

ADVISORY

This management's discussion and analysis ("MD&A"), dated as of August 19, 2014 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 months and nine months ended June 30, 2014 and 2013, as well as with the Company's consolidated financial statements and MD&A for the year ended September 30, 2013. 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, 2013, 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 condition 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, 2013, 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 in 1984, and is listed on the TSX Venture Exchange (Tier 1, trading symbol: NTS) and quoted in the United States on the OTCQX Market (trading symbol: NTSFF).

The Company's head office and laboratory is located at #308 - 2999 Underhill Avenue, Burnaby, BC, Canada V5A 3C2 and the registered and records office is Suite 1500 - 1055 West Georgia, Vancouver, BC, Canada V6E 4N7. The Company also conducts research at 4D Labs nanofabrication facility which is a Canadian federal government sponsored facility located at Simon Fraser University ("SFU").

Nanotech is developing light based recognition nanotechnology for potential use in anti-counterfeiting and authentication processes and products including currency, legal documents, and commercial products. Its wholly-owned subsidiary, Tactical Technologies Inc. ("Tactical"), designs and sells sophisticated communication surveillance and intelligence gathering equipment for the law enforcement and defense industries in the United States and Canada.

On September 27, 2013, pursuant to a share exchange agreement for a combined transaction, the Company completed the acquisition of 100% of IDIT Technologies Corp. ("IDIT") and 95% of IDME Technologies Corp. ("IDME") two privately held British Columbia corporations from whom the Company had previously sublicensed its anti-counterfeiting technology. On May 5, 2014, the Company acquired, by exercising a compulsory acquisition right, the remaining 5% of IDME from SFU. The Company now owns as subsidiaries, 100% of both IDIT and IDME.

The acquisition eliminated a 6% gross revenue royalty on product sales and as a result the Company acquired direct ownership of the principal nanotechnology patents as well as ownership of additional intellectual property in related fields. Any of the Company's products and services which are subject to a license from SFU will continue to be subject to a 3% sales royalty in favor of SFU (where key elements of the nanotechnology originated). The SFU license is available at *www.sedar.com*.

RESEARCH & DEVELOPMENT FOCUS

Nanotech is developing what it hopes will prove to be commercially viable nanotechnology for use in anti-counterfeiting and commercial product authentication systems. The Company is developing specialized optical features for use in banknotes and other products which employ arrays of hundreds of millions of nano-holes that are impressed or embossed onto a substrate material such as polymer and metal. The arrays yield unique light signatures 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.

In June 2013, the Company began research and development of a hand casting process for making master wafer-dies and production printing heads from those master wafer-dies. Design and identification of the equipment required for the creation (or recombination) of printing heads has begun and initial part orders were placed. The equipment enables us to produce custom samples to support our commercial activities by being able to create custom samples for potential clients. In May 2014, the Company purchased a physical vapour deposition system to allow us to alter the properties of our substrate surface to better enhance the performance of our nanotechnology. This investment in equipment encompasses the build-out of machinery to be incorporated in our in-house laboratory at our facilities in Burnaby.

A number of trial wafer-dies were produced which are capable of embossing a variety of symbols and logos as nano-images. Additional development was done on the nano-optics design and software that resulted in being able to create more complex colours and shading of the images. A significant achievement from this development was the creation of a master wafer-die of National Geographic's iconic 1980's *Afghan Girl* cover photo. Subsequently we experimented with further colour design and were able to create a larger, higher definition version of the *Afghan Girl*. These new processes have allowed us to generate a new type of wafer-die that can support bolder, intense colours as well as more subtle colours such as skin tones.

Since completing its first and second commercial-scale production test-run using its nanotechnology-based optical security feature, the Company has been doing compatibility tests. These tests suggest that our advanced nano-optical technology can likely be seamlessly incorporated into standard security industry commercial scale manufacturing processes. A second generation of validation tests were also conducted. The production run showed that the Company's origination process and master shims (wafer-dies) used by the third parties' embossing equipment was able to transfer separate and continuous nano-optical images accurately onto the substrate film over a commercial-scale run. The technology proved to be extremely robust in the high-volume, high-speed setting with images in the last ten meters of the substrate material being as clear as in the first ten meters. During the spring of 2014 the Company successfully demonstrated the commercialization of its nanotechnology product at the TED conference held in Vancouver, B.C. Images of this film are available on the Company's website at: www.nanosecurity.ca

RESULTS OF OPERATIONS

The condensed consolidated interim financial statements for the three and nine months ended June 30, 2014 include the accounts of the Company and its wholly-owned subsidiaries, Tactical, IDIT, and IDME. The Company derives substantially all of its revenues through Tactical in United States dollars.

Selected Financial Information

	Three months ended June 30		Nine months ended June 30	
	2014	2013	2014	2013
Revenue	$602,920	$402,682	$1,740,838	$1,350,782
Cost of sales	416,158	307,541	1,157,404	1,032,652
	186,762	95,141	583,434	318,130
Expenses				
Research and development	198,024	179,790	417,083	513,518
General and administration	609,491	317,083	1,323,345	803,793
Sales and marketing	162,140	110,624	474,865	310,323
	969,655	607,497	2,215,293	1,627,634
Loss before other expenses	$(782,893)	$(512,356)	$(1,631,859)	$(1,309,504)

Revenue
The revenues for the three months ended June 30, 2014 increased by $200,238 or 50% to $602,920 compared to $402,682 in the same period last year. The revenues for the nine months ended June 30, 2014 increased by $390,056 or 29% to $1,740,838 compared to $1,350,782 in the same period last year. The increased revenues was a result of increased sales in Tactical due to the launch of a new digitally encrypted transmitter and receiver sold to government agencies. The new product combines both an improved encryption capability with availabilities for government agencies to communicate with other agencies on a standard platform.

Gross Margin
Gross margin for the three months ended June 30, 2014 increased by $91,621 or 96% to $186,762 compared to $95,141 in the same period last year. Gross margin for the nine months ended June 30, 2014 increased by $265,304 or 83% to $583,434 compared to $318,130 in the same period last year. The increased gross margin was a result of increased sales in Tactical's new higher margin product line. Additionally, royalty fees paid by Nanotech to a related company in 2013 and expensed to cost of goods

sold were eliminated on consolidation this year due to Nanotech's acquisition of that related company in September 2013.

Research & Development
Research and development expenditures for the three months ended June 30, 2014 were $198,024, an increase of $18,234 compared to $179,790 in the same period last year. The increase was a result of increased patent costs and lab fees related to its technology.

Research and development expenditures for the nine months ended June 30, 2014 were $417,083, a decrease of $96,435 compared to $513,518 in the same period last year. The decrease related to the elimination of monthly fees to IDME due to the acquisition of that company in September 2013.

The R&D expenditures were offset by funds from various government R&D incentive programs. The Company believes that work at 4D Labs nanofabrication facility continues to represent a highly cost effective facility as the Company is able to avoid the capital costs of a laboratory and certain highly specialized equipment. The Company now houses some of its own research and prototype production equipment at the 4D Labs facility.

General and Administration
General and administration expenditures for the three months ended June 30, 2014 were $609,491, an increase of $292,408 compared to $317,083 in the same period last year. General and administration expenditures for the nine months ended June 30, 2014 were $1,323,345, an increase of $519,552 compared to $803,793 in the same period last year. The increase was a result of increased office salaries, professional fees, and share based payments compared to the third quarter of 2013.

Sales and Marketing
Sales and marketing expenditures for the three months ended June 30, 2014 were $162,140, an increase of $51,516 compared to $110,624 in the same period last year due to increased investor relations expenditures and travel expenses incurred.

Sales and marketing expenditures for the nine months ended June 30, 2014 were $474,865, an increase of $164,542 compared to $310,323 in the same period last year as a result of increased investor relations expenditures, travel and tradeshow expenses.

QUARTERLY RESULTS

	Q3 2014	Q2 2014	Q1 2014	Q4 2013	Q3 2013	Q2 2013	Q1 2013	Q4 2012
($ thousands, except common share amounts)								
Revenue	$603	$578	$560	$459	$403	$410	$538	$577
Net loss	(774)	(519)	(353)	(727)	(525)	(477)	(320)	(442)
Net loss per common share – Basic and diluted	(0.02)	(0.01)	(0.01)	(0.02)	(0.02)	(0.02)	(0.01)	(0.01)

There are no seasonal effects or other trends in the Company's business over the quarters presented.

LIQUIDITY AND CAPITAL RESOURCES

Our principal cash requirements are for operations, working capital, and capital expenditures. As at June 30, 2014, we had $2.4 million in cash and cash equivalents, compared to $4.2 million as at September 30, 2013.

Operating Activities

Cash used in operating activities was $683,958 for the three months ended June 30, 2014, compared to $394,786 for the comparable period in 2013. For the nine months ended June 30, 2014, cash used in operating activities was $1,922,794 compared to $956,925 in the comparable period in 2013.

Investing Activities

For the three and nine months ended June 30, 2014, $64,136 and $62,223 was used in investing activities, compared to $11,242 and $11,408 was used in the same period in 2013. The increase in investing activities in the three and nine month periods is due to increased capital expenditures as the Company builds out its lab facility.

Financing Activities

For the three and nine months ended June 30, 2014, $197,800 and $225,925 was provided by financing activities, compared to approximately $nil and $122,500 cash received in the same periods in 2013. For the three months ended June 30, 2104 247,250 stock options were exercised for proceeds of $197,800. During the second quarter 31,250 share purchase warrants were exercised for proceeds of $28,125.

Contractual Obligations

The following table quantifies our future contractual obligations as at June 30, 2014:

	Payments due by period		
	Total	Less than 1 year	1-3 years
Premises leases	$346,002	$138,035	$207,967

*Not including purchase commitments to suppliers

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 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 $19,881,331 as of June 30, 2014 and $18,124,376 as of September 30, 2013. The Company also expects to continue to incur substantial expenses relating to its research and development efforts in light based recognition nanotechnology. 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 in 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, risk that impact consolidated operations, and future significant capital investment opportunities. For the three months and nine months ended June 30, 2014, there were no other changes in our approach to capital management.

As at June 30, 2014 cash and cash equivalents amounted to $2,427,827, compared to $4,155,811 as at September 30, 2013.

As at June 30, 2014, the Company had working capital of $2,283,927, as compared to $3,491,388 at September 30, 2013.

The Company has no long term debt or loans outstanding and had 39,329,533 common shares issued and outstanding at June 30, 2014, compared to 38,756,136 at September 30, 2013.

The Company had no commitments for material capital expenditures as of June 30, 2014.

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

Management has reviewed its funding requirements and has determined that the Company has sufficient funds on hand to meet its requirements through September 30, 2014.

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, 2013. In the third quarter of 2014, 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*) technology 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, 2013, 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, 2014 is as follows:

Issued shares	39,392,033
Warrants	2,511,500
Stock options outstanding	1,567,000

Public Securities Filings

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

Subsequent Events

On August 25, 2014 the Company entered into a share and loan purchase agreement (the "Purchase Agreement") with an arms-length vendor that provides for the Company to acquire 100% of the issued and outstanding shares of Fortress Optical Features Ltd. ("FOF") a producer of optical thin film ("OTF") used as security threads in banknotes in several countries. Under the terms of the Purchase Agreement, the Company will pay up to $17.5 million for FOF to be satisfied by a combination of $7 million cash, 5 million common shares of Nanotech and a secured vendor take-back note of $3 million with an interest rate of 4% per annum. Of this consideration 3 million shares will be escrowed and shall be released based on certain specific performance milestones based on sales of product to new customers over up to five years. Shares may be released early in the event of a sale of the business or change of control of the Company. If the Company elects to terminate the Purchase Agreement in reliance on an allowable condition a $600,000 break fee is payable in shares at market with a floor price of $1.00. The Purchase Agreement includes 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 the 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.

The Company has also entered into an agreement with a Canadian securities dealer, to sell on a best-efforts marketed private placement basis, up to approximately 10,667,000 subscription receipts of the Company (the "Subscription Receipts") at a price of $1.50 per Subscription Receipt, for gross proceeds to the Company of up to $16.0 million. There is a minimum planned subscription amount of $9,000,000. The Subscription Receipts will automatically convert, without additional payment, into one common share and one-half of a common share purchase warrant of the Company for each Subscription Receipt concurrently with completion of the FOF purchase transaction. Each whole purchase warrant will entitle 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. The Company anticipates the FOF transaction and financing will both close on or about September 10, 2014.

Condensed Consolidated Interim Financial Statements of

Nanotech Security Corp.

Three and nine months ended June 30, 2014 and 2013
(Unaudited)

Nanotech Security Corp.

June 30, 2014

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the condensed consolidated interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed consolidated interim financial statements of the Company have been prepared by management and approved by the Audit Committee and Board of Directors of the Company. They include appropriate accounting principles, judgment and estimates in accordance with IFRS for interim financial statements.

The Company's independent auditors have not performed a review of these condensed consolidated interim financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of condensed consolidated interim financial statements by an entity's auditors.

Nanotech Security Corp.

Consolidated Statements of Operations and Comprehensive Loss
(Unaudited)
(In Canadian dollars)

	Three months ended June 30,		Nine months ended June 30,	
	2014	2013	2014	2013
Revenue	$ 602,920	$ 402,682	$ 1,740,838	$ 1,350,782
Cost of sales	416,158	307,541	1,157,404	1,032,652
	186,762	95,141	583,434	318,130
Expenses (Note 7)				
Research and development	198,024	179,790	417,083	513,518
General and administration	609,491	317,083	1,323,345	803,793
Sales and marketing	162,140	110,624	474,865	310,323
	969,655	607,497	2,215,293	1,627,634
Loss before other expenses	(782,893)	(512,356)	(1,631,859)	(1,309,504)
Other expenses				
Foreign exchange (gain) loss	(10,626)	11,393	16,793	8,885
Finance expense	1,990	1,615	6,224	3,685
Gain on sale of fixed asset	-	-	(8,845)	-
	(8,636)	13,008	14,172	12,570
Net loss	(774,257)	(525,364)	(1,646,031)	(1,322,074)
Unrealized foreign exchange gain (loss) on translation of foreign operation	(30,698)	30,140	32,806	60,684
Total comprehensive loss for the period	$ (804,955)	$ (495,224)	$ (1,613,225)	$ (1,261,390)
Loss per share				
Basic and diluted	$ (0.02)	$ (0.02)	$ (0.04)	$ (0.04)
Weighted average number of common shares				
Basic and diluted	39,023,657	29,840,533	38,848,286	29,710,405

See accompanying notes to condensed consolidated interim financial statements.

Nanotech Security Corp.

Consolidated Statements of Changes in Equity
Nine months ended June 30, 2014 and 2013
(In Canadian dollars)

	Number of shares	Share capital	Warrants reserve	Share based payments reserve	Reserve for contingent shares to be issued on acquisition (Note 6)	Foreign currency translation reserve	Deficit	Total shareholders' equity	Non-controlling interest	Total equity
Balance as at September 30, 2012	28,615,533	$ 16,753,591	$ 180,393	$ 610,152	$ -	$ (379)	$ (16,075,059)	$ 1,468,698	$ -	$ 1,468,698
Net loss	-	-	-	-	-	-	(1,322,074)	(1,322,074)	-	(1,322,074)
Unrealized foreign exchange loss	-	-	-	-	-	60,684	-	60,684	-	60,684
on translation										-
Total comprehensive loss	-	-	-	-	-	60,684	(1,322,074)	(1,261,390)	-	(1,261,390)
Share based payments				163,521				163,521		163,521
Warrants expired	-	180,393	(180,393)	-	-	-	-	-	-	-
Options exercised	1,225,000	184,584	-	(62,084)	-	-	-	122,500	-	122,500
Balance as at June 30, 2013	29,840,533	$ 17,118,568	$ -	$ 711,589	$ -	$ 60,305	$ (17,397,133)	$ 493,329	$ -	$ 493,329

	Number of shares	Share capital	Warrants reserve	Share based payments reserve	Reserve for contingent shares to be issued on acquisition (Note 5)	Foreign currency translation reserve	Deficit	Total shareholders' equity	Non-controlling interest	Total equity
Balance as at September 30, 2013	38,756,136	$ 25,478,860	$ 623,305	$ 755,138	$ 307,715	$ (11,629)	$ (18,124,376)	$ 9,029,013	$ (14,924)	$ 9,014,089
Net loss	-	-	-	-	-	-	(1,646,031)	(1,646,031)	-	(1,646,031)
Unrealized foreign exchange loss										-
on translation	-	-	-	-	-	32,806	-	32,806	-	32,806
Total comprehensive loss	-	-	-	-	-	32,806	(1,646,031)	(1,613,225)	-	(1,613,225)
Warrants exercised	31,250	35,602	(7,477)					28,125		28,125
Options exercised (Note 9)	247,250	291,364	-	(93,564)	-	-	-	197,800		197,800
Share based payments (Note 9)	-	-	-	226,208	-	-	-	226,208		226,208
Shares issued on acquisition of non-controlling interest (Note 9)	60,000	96,000	-	-	-	-	(96,000)	-	-	-
Acquisition of non-controlling interest (Note 6)							(14,924)	(14,924)	14,924	-
Contingent shares issued on the acquisition	234,897	307,715	-	-	(307,715)	-	-	-	-	-
Balance as at June 30, 2014	39,329,533	$ 26,209,541	$ 615,828	$ 887,782	$ -	$ 21,177	$ (19,881,331)	$ 7,852,997	$ -	$ 7,852,997

See accompanying notes to condensed consolidated interim financial statements.

Nanotech Security Corp.

Consolidated Balance Sheets
(Unaudited)
(In Canadian dollars)

	June 30, 2014	September 30, 2013
Assets		
Current assets:		
Cash and cash equivalents	$ 2,427,827	$ 4,155,811
Accounts receivable	379,767	362,111
Inventory	293,754	310,904
Prepaid expenses	67,812	11,743
	3,169,160	4,840,569
Property and equipment	109,210	61,897
Intangible assets	4,236	5,548
Other assets	10,670	10,302
Goodwill (Note 6)	5,444,954	5,444,954
	$ 8,738,230	$ 10,363,270
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 338,355	$ 809,620
Due to related party (Note 8)	534,724	533,812
Deposits	12,154	5,749
	885,233	1,349,181
Shareholders’ equity		
Share capital (Note 9)	26,209,541	25,478,860
Warrants reserve (Note 9)	615,828	623,305
Share based compensation reserve (Note 9)	887,782	755,138
Shares issuable reserve (Note 6)	-	307,715
Foreign currency translation reserve	21,177	(11,629)
Deficit	(19,881,331)	(18,124,376)
Equity attributable to shareholders of the Company	7,852,997	9,029,013
Non-controlling interests (Note 2 and 6)	-	(14,924)
	7,852,997	9,014,089
	$ 8,738,230	$ 10,363,270

Nature of operations (Note 1)
Commitments (Note 13)
Subsequent events (Note 15)
See accompanying notes to condensed consolidated interim financial statements.

Nanotech Security Corp.

Consolidated Statements of Cash Flows
(Unaudited)
(In Canadian dollars)

	Three months ended June 30, 2014	Three months ended June 30, 2013	Nine months ended June 30, 2014	Nine months ended June 30, 2013
Operating activities:				
Net loss	$ (774,257)	$ (525,364)	$ (1,646,031)	$ (1,322,074)
Items not involving cash:				
Depreciation and amortization	13,539	5,913	26,765	16,946
Share based compensation	212,771	97,071	226,208	163,521
Gain on sale of asset	-	-	(8,845)	-
Non-cash working capital changes (Note 10)	(136,011)	27,594	(520,891)	184,682
Cash used in operating activities	(683,958)	(394,786)	(1,922,794)	(956,925)
Investing activities:				
Purchase of property and equipment, net of disposals	(64,136)	(11,242)	(62,223)	(11,408)
Cash used in investing activities	(64,136)	(11,242)	(62,223)	(11,408)
Financing activities:				
Issuance of shares for options exercised	197,800	-	197,800	122,500
Issuance of shares for warrants exercised	-	-	28,125	-
Cash provided by financing activities	197,800	-	225,925	122,500
Effect of foreign exchange on cash and cash equivalents	(29,476)	29,071	31,108	58,365
Decrease in cash and cash equivalents	(579,770)	(376,957)	(1,727,984)	(787,468)
Cash and cash equivalents, beginning of period	3,007,597	843,938	4,155,811	1,254,449
Cash and cash equivalents, end of period	$ 2,427,827	$ 466,981	$ 2,427,827	$ 466,981

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. The Company is listed on the TSX Venture Exchange (Tier 1, trading symbol: NTS) and quoted in the United States on the OTCQX Market (trading symbol: NTSFF). The Company is developing light based recognition nanotechnology for potential use in anti-counterfeiting and authentication processes and products including currency, legal documents, and commercial products. Its wholly-owned subsidiary, Tactical Technologies Inc. (“Tactical”), designs and sells sophisticated communication surveillance and intelligence gathering equipment for the law enforcement and defense industries in the United States and Canada.

The Company’s head office is located at #308 - 2999 Underhill Avenue, Burnaby, BC, Canada V5A 3C2 and the registered and records office is Suite 1500 - 1055 West Georgia, Vancouver, BC, Canada V6E 4N7.

(b) Nature of operations

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 $19,881,331 as of June 30, 2014 ($18,124,376 as of September 30, 2013). The Company also expects to continue to incur substantial expenses relating to its research and development efforts in light based recognition nanotechnology. As a result, the Company expects to incur significant losses in the next year until 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 in 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.

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, 2013, 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, 2013, which are included in the Company’s 2013 annual report.

2. Basis of preparation: (continued)

These condensed consolidated interim financial statements include the accounts of the Company and its wholly-owned subsidiaries, Tactical, IDIT Technologies Corp. (“IDIT”), and IDME Technologies Corp. (“IDME”). The Company acquired 100% of IDIT and 95% of IDME on September 27, 2013 and the remaining 5% of IDME on May 5, 2014. The financial statements of the subsidiaries are included in the condensed consolidated interim financial statements from the date that control commences.

Intercompany balances, transactions, revenues and expenses have been eliminated on consolidation. There has been no non-controlling interest reported for the remaining 5% of IDME for the period they remained outstanding as the balance was nil.

These condensed consolidated interim financial statements were approved by the Company’s Board of Directors and authorized for issue on August 19, 2014.

3. Changes in accounting policies:

The International Accounting Standards Board (“IASB”) has issued the following amendments and new standards, which had not been previously adopted by the Company. Each of the amendments and new standards is effective for the annual period beginning on or after October 1, 2013, unless otherwise indicated, with early adoption permitted. The following is a description of the new or amended standards:

IFRS 10 - *Consolidated Financial Statements*

IFRS 10- *Consolidated Financial Statements* replaces the consolidation requirements in IAS *27 - Consolidated and Separate Financial Statements*, and SIC-1 - *Consolidation - Special Purpose Entities*. IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The adoption of this standard during the period did not have any material impact on the condensed consolidated interim financial statements and notes to the financial statements.

IFRS 11- *Joint Arrangements*

IFRS 11- *Joint Arrangements* supersedes IAS 31 - *Interests in Joint Ventures*, and SIC-*13 - Jointly Controlled Entities - Non-Monetary Contributions by Venturer*. IFRS 11 improves on IAS 31 by requiring a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations arising from the arrangement. The standard also addresses inconsistencies in the reporting of joint arrangements by requiring a single method to account for interests in jointly controlled entities, namely the equity method. The adoption of this standard during the period did not have a material impact on the condensed consolidated interim financial statements and notes to the financial statements.

IFRS 12 - *Disclosure of Interests in Other Entities*

IFRS 12 - *Disclosure of Interests in Other Entities* is a new standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. The adoption of this standard during the period did not have a material impact on the condensed consolidated interim financial statements and notes to the financial statements.

3. Changes in accounting policies: (continued)

IFRS *13 – Fair Value Measurement*

IFRS *13 – Fair Value Measurement* is a new standard that defines fair value, sets out a framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 does not determine when an asset, a liability, or an entity's own equity instrument is measured at fair value. Rather, the measurement and disclosure requirements of IFRS 13 apply when another IFRS requires or permits the item to be measured at fair value (with limited exceptions). The adoption of this standard during the period did not have a material impact on the condensed consolidated interim financial statements and notes to the financial statements.

4. New standards and interpretations not yet adopted:

IFRS 9 - *Financial Instruments*

In July 2014, the IASB issued IFRS 9 - *Financial Instruments*, which replaces the earlier versions of IFRS 9 (2009, 2010, and 2013) and completes the IASB's project to replace IAS 39 – *Financial Instruments: Recognition and Measurement*. IFRS 9 includes a logical model for classification and measurement of financial assets, a single forward-looking 'expected loss' impairment model and a substantially-reformed approach to hedge accounting to better link the economics of risk management with its accounting treatment. IFRS 9 is effective for annual period beginning on or after January 1, 2015 with earlier adoption permitted. The Company is currently evaluating the impact of IFRS 9 on its financial statements.

5. Key sources of estimation uncertainty and key judgments:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are accounted for prospectively. The key sources of estimation uncertainty that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities are discussed below:

(a) Allocation of purchase consideration to acquired assets and assumed liabilities

The Company determined and allocated the purchase price of an acquired company to the tangible and intangible assets acquired and liabilities assumed as of the business combination date in accordance with IFRS 3 – *Business Combinations*. The purchase price allocation process requires us to use significant estimates and assumptions, including fair value estimates, as of the acquisition date.

While management uses their best estimates and assumptions as a part of the purchase price allocation process to accurately value assets acquired and liabilities assumed at the business combination date, the estimates and assumptions are inherently uncertain and subject to refinement. As a result, during the purchase price allocation period, which is generally one year from the acquisition date, management records adjustments to the assets acquired and liabilities assumed with the corresponding offset to goodwill.

(b) Valuation of goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less impaired losses if any. For purposes of impairment testing, goodwill is allocated to each of the Company's cash-generating units (or groups of cash-

5. Key sources of estimation uncertainty and key judgments: (continued)

(b) Valuation of goodwill (continued)

generating units) that is expected to benefit from the synergies of the combination. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. Management evaluates goodwill for impairment annually as of September 30th. While management uses their best estimate and assumptions to assess goodwill impairment, there are inherent uncertainties in projecting future cash flows.

6. Acquisitions of IDIT and IDME:

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 whom 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. These shares will be distributed to the former IDME shareholders in the future either directly as a dividend or indirectly by issuance of the equivalent number of new shares from the Company's treasury against cancellation of the same number of shares held by IDME on a wind-up of IDME.

Two of the Company's directors and a Vice President were among the vendors of the IDIT and IDME common shares as follows: Mr. Blakeway, Director and CEO, (1,632,033 shares), Dr. Kaminska, Director and CSO (1,674,634 shares), and Mr. Landrock, Vice President (433,333 shares), for a 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 Annual General Meeting held on April 16, 2014, the disinterested shareholders voted to approve the issuance of the 234,897 shares to Dr. Kaminska (116,979 shares) and Mr. Blakeway (117,918 shares). These shares were issued in May 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 only to a 3% sales royalty in favor 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:

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.

(In Canadian dollars)

6. Acquisitions of IDIT and IDME: (continued)

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:	
Bank overdraft	(18)
Receivables	487,424
Property and equipment	2,550
Liabilities assumed	(788,434)
Net identifiable liabilities	(298,478)
Goodwill	$ 5,444,954

The purchase price allocation from September 30, 2013, has been prepared on a provisional basis based on management's best estimates of the fair value of the assets acquired, liabilities assumed and consideration paid as of the date of finalization of these condensed consolidated interim financial statements. Management is still in the process of allocating value to the acquired intangible assets. Management is unable to allocate the provisional goodwill as of June 30, 2014 as it is still assessing whether it will create a new cash generating unit for the additional technology acquired.

None of the goodwill arising on these acquisitions is expected to be deductible for tax purposes.

(In Canadian dollars)

7. Nature of expenses:

Operating expenses are comprised of the following:

	Three months ended June 30,		Nine months ended June 30,	
	2014	2013	2014	2013
Advertising and promotion	$ 15,044	$ 4,229	$ 37,286	$ 12,567
Depreciation and amortization	10,483	3,387	17,683	9,538
Investor and public relations	70,686	40,031	187,137	95,225
Legal and professional fees	134,814	31,915	345,456	108,640
Office and general	47,741	25,002	146,746	86,444
Development costs	84,296	110,336	184,299	356,660
Rent	17,452	19,749	57,993	34,424
Salaries and benefits	354,033	262,471	934,832	726,570
Share based compensation (Note 9)	212,770	97,071	226,208	163,520
Travel and entertainment	22,336	13,306	77,653	34,046
	$ 969,655	$ 607,497	$ 2,215,293	$ 1,627,634

8. Transactions with related parties:

The remuneration of directors and other members of key management personnel are as follows:

		Three months ended June 30,		Nine months ended June 30,	
	Note	2014	2013	2014	2013
Management fees	(i)	$ 55,210	$ 58,330	$ 179,410	$ 182,790
Share based payments	(ii)	201,600	-	201,600	-
Director's fees	(iii)	20,000	11,089	41,000	26,416
Legal fees	(iv)	98,938	11,572	153,790	30,051
Research and development fees	(v)	-	157,500	-	472,500
		$ 375,748	$ 238,491	$ 575,800	$ 711,757

Included in the above table:

i) Management fees were charged by Geni D Ventures Inc., a company controlled by Mr. Blakeway, who is an officer and director of the Company. As of June 30, 2014, amounts owing to this company included in accounts payable and accrued liabilities were $336,489 (September 30, 2013 - $339,252).

(In Canadian dollars)

8. Transactions with related parties: (continued)

ii) Share based payments represent the fair market value of the stock options expensed for directors and officers during the period.

iii) Director's fees represented fees paid to directors during the period. As of June 30, 2014, and September 30, 2013 there were no amounts owing.

iv) Legal fees were paid to McMillan LLP, a law firm of which Mr. Zinkhofer, a director of the Company, is a partner. As of June 30, 2014, amounts owing to this company included in accounts payable and accrued liabilities were $89,735 (September 30, 2013 - $86,060).

v) Research and development fees related to royalty payments and services provided by IDME, a company that was controlled by shareholders and directors of the Company prior to the Company acquiring 95% of IDME on September 27, 2013, and the remaining 5% on May.5, 2014.

As of June 30, 2014, included in accounts payable and accrued liabilities were $108,500 (September 30, 2013 - $108,500) owing to Dr. Kaminska, an officer and director of the Company.

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, 2013	38,756,136	$	25,478,860
Warrants exercised	31,250		35,602
Options exercised	247,250		291,364
Shares issued on acquisition of non-controlling interest	60,000		96,000
Contingent shares issued on the acquisition	234,897		307,715
Balance as at June 30, 2014	39,329,533	$	26,209,541

(In Canadian dollars)

9. Share capital: (continued)

(b) Stock option plan

Stock options outstanding as at June 30, 2014 are as follows:

	Number of options		Weighted average exercise price
Balance, September 30, 2013	960,000	$	0.80
Granted	635,000		1.67
Exercised	(247,250)		0.80
Forfeited	(230,750)		0.80
Balance, June 30, 2014	1,117,000	$	1.29

The following table summarizes information pertaining to the Company's stock options outstanding at June 30, 2014:

Options outstanding				Options exercisable	
Range of exercise prices Cdn$	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	1.98	$0.80	482,000	$0.80
$0.81 - $1.75	635,000	4.24	1.67	137,500	1.65
	1,117,000	3.26	$1.29	619,500	$1.29

The exercise price of all stock options granted during the period are equal to the closing market price at the grant date. The Company calculates share based payment from the vesting of stock options using the Black-Scholes option-pricing model with assumptions noted below and records related compensation expense as follows for the three and nine months ended June 30, 2014 and 2013 have been recorded in research and development, and general and marketing expenses:

	Three months ended June 30		Nine months ended June 30	
	2014	2013	2014	2013
Share based compensation - expense	212,771	97,071	226,208	163,521

The weighted average assumptions used to estimate the fair value of options granted during the three and nine months ended June 30, 2014 and 2013 were:

	Three months ended June 30		Nine months ended June 30	
	2014	2013	2014	2013
Risk free interest rate	1.65	-	1.53	1.02
Expected life	4.25	-	3.83	3.00
Vesting period	1.5 years	-	1.6 years	2.0 years
Expected volatility	66%	-	65%	70%
Expected dividends	Nil	-	Nil	Nil
Average fair value	$0.84	-	$0.78	$0.37
Forfeiture rate	9%	-	9%	Nil

(In Canadian dollars)

9. Share capital: (continued)

(c) Warrants

	Number of shares	Amount
Balance as at September 30, 2013	2,605,250	$ 623,305
Exercised	(31,250)	(7,477)
Balance as at June 30, 2014	2,574,000	$ 615,828

During the three months ended June 30, 2014, no warrants were exercised.

During the nine months ended June 30, 2014, 31,250 warrants were exercised at a price of $0.90 for proceeds of $28,125.

10. Supplementary cash flow information:

(a) Change in non-cash operating working capital

	Three months ended June 30,		Nine months ended June 30,	
	2014	2013	2014	2013
Accounts receivable	$ (21,272)	$ 327	$ (17,656)	$ 102,289
Inventory	72,661	23,777	17,150	(34,465)
Prepaid expenses	(5,749)	3,439	(56,069)	(51,348)
Other assets	385	(358)	(368)	(686)
Accounts payable	(190,585)	30,408	(471,265)	169,623
Due to related party	69,168	-	912	-
Deposits	(60,619)	(29,999)	6,405	(731)
	$ (136,011)	$ 27,594	$ (520,891)	$ 184,682

(b) Interest and income taxes

During the nine months ended June 30, 2014 and 2013, the Company did not pay or receive any interest or income taxes.

(c) Cash and cash equivalents

Cash and cash equivalents are comprised of:

	June 30, 2014	September 30, 2013
Cash	$ 226,203	$ 4,154,592
Money market funds	76,624	1,219
Term deposit	2,125,000	-
	$ 2,427,827	$ 4,155,811

(In Canadian dollars)

11. Segmented information:

Segmented information is prepared using the accounting policies described in note 19 of the Company's consolidated financial statements for the year ended September 30, 2014. Specifically the Company's reportable segments under IFRS 8 – *Operating Segments* are: Tactical which designs, manufactures and sells sophisticated wireless radio frequency communication, surveillance, intelligence gathering, and officer safety equipment with major customers in state and federal law enforcement agencies located primarily in the United States, and Nanotech which is developing anti-counterfeiting authentication processes using nano-hole light based recognition nanotechnology.

No customer represents in excess of 10% of total revenue in both the three and nine months ended June 30, 2014 and 2013.

June 30, 2014	Nanotech	Tactical	Total
Total current assets	$ 2,505,664	$ 663,496	$ 3,169,160
Property and equipment	80,980	28,230	109,210
Intangible assets	-	4,236	4,236
Other assets	-	10,670	10,670
Total liabilities	686,201	199,032	885,233

September 30, 2013	Nanotech	Tactical	Total
Total current assets	$ 4,191,743	$ 648,826	$ 4,840,569
Property and equipment	23,396	38,501	61,897
Intangible assets	-	5,548	5,548
Other assets	-	10,302	10,302
Total liabilities	1,122,844	226,337	1,349,181

Three months ended June 30, 2014	Nanotech	Tactical	Total
Revenue	$ -	$ 599,972	$ 602,920
Cost of sales	3,501	409,709	416,158
Gross profit (loss)	(3,501)	190,263	186,762
Expenses	786,094	183,561	969,655
Other	3,355	(11,991)	(8,636)
Net profit (loss)	(792,950)	18,693	(774,257)
Unrealized foreign exchange (loss) gain on translation of foreign operation	(30,698)	-	(30,698)
Total comprehensive loss	$ (823,648)	$ 18,693	$ (804,955)

(In Canadian dollars)

11. Segmented information: (continued)

Three months ended June 30, 2013	Nanotech	Tactical	Consolidated
Revenue	$ 45	$ 402,637	$ 402,682
Cost of sales	38,215	269,326	307,541
Gross profit (loss)	(38,170)	133,311	95,141
Expenses	418,809	188,688	607,497
Other	860	12,148	13,008
Net profit (loss)	457,839	(67,525)	(525,364)
Unrealized foreign exchange (loss) gain on translation of foreign operation	30,140	-	30,140
Total comprehensive loss	$ (427,699)	$ (67,525)	$ (495,224)

Nine months ended June 30, 2014	Nanotech	Tactical	Consolidated
Revenue	$ 18,536	$ 1,722,302	$ 1,740,838
Cost of sales	7,106	1,150,298	1,157,404
Gross profit (loss)	11,430	572,004	583,434
Expenses	1,650,649	564,644	2,215,293
Other	8,516	5,656	14,172
Net profit (loss)	(1,647,735)	1,704	(1,646,031)
Unrealized foreign exchange (loss) gain on translation of foreign operation	32,806	-	32,806
Total comprehensive loss	$ (1,614,929)	$ 1,704	$ (1,613,225)

Nine months ended June 30, 2013	Nanotech	Tactical	Consolidated
Revenue	$ 1,713	$ 1,349,069	$ 1,350,782
Cost of sales	113,215	919,437	1,032,652
Gross profit	(111,502)	429,632	318,130
Expenses	1,063,205	564,429	1,627,634
Other	(10,447)	23,019	12,570
Net loss	(1,164,260)	(157,814)	(1,322,074)
Unrealized foreign exchange (loss) gain on translation of foreign operation	60,684	-	60,684
Total comprehensive loss	$ (1,103,576)	$ (157,814)	$ (1,261,390)

(In Canadian dollars)

12. Financial instruments:

(a) Financial risk management

The Company's activities expose it to a variety of financial risks including market risk (foreign exchange and interest rate risk), credit risk, and liquidity risk. Management reviews these risks on an ongoing basis to ensure that the risks are appropriately managed. The Company may use foreign exchange forward contracts to manage exposure to fluctuations in foreign exchange from time to time. The Company does not have a practice of trading derivatives and has none outstanding at June 30, 2014 (nil - September 30, 2013).

(b) Foreign exchange risk

The Company operates on an international basis and is subject to foreign exchange risk exposures arising from transactions denominated in a foreign currency. The Company's objective is to minimize the impact of the volatility related to financial assets and liabilities denominated in a foreign currency where possible through effective cash flow management.

Foreign currency exchange risk is limited to the portion of the Company's business transactions denominated in currencies other than Canadian dollars. On an ongoing basis, management monitors changes in foreign currency exchange rates as well as considers long-term forecasts to assess the potential cash flow impact to the Company. The Company has elected not to actively manage the foreign exchange exposures at this time. The impact of a 10% change in foreign exchange rates between the Canadian and U.S. dollar on the Company's results of operations or financial position would not be significant.

U.S. dollar balances subject to this risk are as follows:

	June 30, 2014	September 30, 2013
Cash and cash equivalents	$ 49,503	$ 176,015
Accounts receivable	313,596	139,574
Accounts payable	186,898	154,655
Deposits	12,154	9,077
	$ 562,151	$ 479,321

(c) Credit risk

Credit risk is the risk of a financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company is exposed to credit risk through its cash and cash equivalents and accounts receivable. The Company manages the credit risk associated with its cash by placing its funds with reputable financial institutions and investing in only highly rated securities that are traded on active markets and are capable of prompt liquidation.

Credit risk for accounts receivable is managed through established credit monitoring activities. The Company also mitigates its credit risk on trade accounts receivable by obtaining cash deposits from certain customers.

	June 30, 2014	September 30, 2013
Cash	$ 2,427,827	$ 466,981
Accounts receivable	379,767	139,574
	$ 2,807,594	$ 606,555

12. Financial instruments: (continued)

(c) Credit risk (continued)

The Company has a concentration of customers in government agencies and law enforcement. Losses under trade accounts receivable have been historically insignificant. The credit worthiness of new customers is subject to review by management, and that of existing customers is monitored. The Company reviews its trade receivable accounts regularly and amounts are written down to their expected realizable value when the account is determined not to be fully collectible. The bad debt expense is charged to net income in the period that the account is determined to be doubtful. The Company does not currently have an allowance for doubtful accounts.

Substantially all accounts receivable are less than 60 days old.

(d) Liquidity risk

The Company's objective related to liquidity risk is to effectively manage cash flows to minimize the exposure that the Company will not be able to meet its obligations associated with financial liabilities as they fall due. On an ongoing basis, the Company manages liquidity risk by maintaining adequate cash balances.

(e) Fair values

The carrying amounts of accounts receivables, accounts payables and accrued liabilities and provisions approximate fair value due to the short term nature of these financial instruments. Fair values of other financial instruments are classified using the following fair values hierarchy:

Level 1 - inputs are unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 - inputs are other than quoted prices in Level 1 that are observable for the asset or liability, either directly or indirectly; and

Level 3 - inputs for the asset or liability that are not based on observable market data.

The Company's financial instruments, carried at fair value, are classified into the above hierarchy as follows:

	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and cash equivalents	$2,427,827	-	-	$2,427,827

13. Commitments:

The Company's products and services related to revenues derived from certain patented nanotechnology are subject to a 3% royalty in favor of Simon Fraser University. The Company has advanced $225,000 in prepaid royalties that would offset against future royalties owed. The initial advances have been expensed.

14. Contingencies:

The Company is engaged in a certain legal claims as part of the ordinary course of business. Subsequent to June 30, 2014, the Company was notified of an employment termination claim. The Company contests the validity of this claim and intends to defend the claim vigorously.

15. Subsequent events:

On August 25, 2014 the Company entered into a share and loan purchase agreement (the "Purchase Agreement") with an arms-length vendor that provides for the Company to acquire 100% of the issued and outstanding shares of Fortress Optical Features Ltd. ("FOF") a producer of optical thin film ("OTF") used as security threads in banknotes in several countries. Under the terms of the Purchase Agreement, the Company will pay up to $17.5 million for FOF to be satisfied by a combination of $7 million cash, 5 million common shares of Nanotech and a secured vendor take-back note of $3 million with an interest rate of 4% per annum. Of this consideration 3 million shares will be escrowed and shall be released based on certain specific performance milestones based on sales of product to new customers over up to five years. Shares may be released early in the event of a sale of the business or change of control of the Company. If the Company elects to terminate the Purchase Agreement in reliance on an allowable condition a $600,000 break fee is payable in shares at market with a floor price of $1.00. The Purchase Agreement includes 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 the 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.

The Company has also entered into an agreement with a Canadian securities dealer, to sell on a best-efforts marketed private placement basis, up to approximately 10,667,000 subscription receipts of the Company (the "Subscription Receipts") at a price of $1.50 per Subscription Receipt, for gross proceeds to the Company of up to $16.0 million. There is a minimum planned subscription amount of $9,000,000. The Subscription Receipts will automatically convert, without additional payment, into one common share and one-half of a common share purchase warrant of the Company for each Subscription Receipt concurrently with completion of the FOF purchase transaction. Each whole purchase warrant will entitle 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. The Company anticipates the FOF transaction and financing will both close on or about September 10, 2014.