Annual Report

September 30, 2014

NANOTECH
SECURITY CORP.

For purposes of this discussion "Nanotech", "the Company", "we", or "us" refers to Nanotech Security Corp. and its subsidiaries. This year and 2014 mean the fiscal year ended September 30, 2014. Last year and 2013 mean the fiscal year ended September 30, 2013, and 2012 means the fiscal year ended September 30, 2012. This quarter means the three months ended September 30, 2014.

ADVISORY

This management's discussion and analysis ("MD&A"), dated as of January 27, 2015 should be read in conjunction with the cautionary statement regarding forward-looking statements below and the Company's consolidated financial statements and accompanying notes for the year ended September 30, 2014 (the "consolidated financial statements"). 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.

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 it's nano-optical and optical thin film technologies 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 and Uncertainties" section of this MD&A and notes to the consolidated financial statements, 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). 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 Street, Vancouver, BC, Canada V6E 4N7.

Prior to September 2013, the Company operated through two business segments – namely the "Nanotech" division, that held certain limited anti-counterfeiting sub-licenses allowing them to develop and market nanotechnology to the security feature market and its "Tactical Technology" division which is represented by a subsidiary Tactical Technology Inc. ("TTI"), that designs and sells sophisticated communication surveillance and intelligence gathering equipment for the law enforcement and defense industries in the United States and Canada. Subsequently, the Company completed certain business acquisitions, described below, followed by a corporate group reorganization to enable the Company to commercialize the nanotechnology it was developing and target the security features market.

On September 27, 2013, the Company completed the acquisition of 100% of IDIT Technologies Corp. ("IDIT") and 95% of IDME Technologies Corp. ("IDME") two privately held 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. On September 29, 2014, 100% of the assets and liabilities of IDIT and IDME were wound up into the Company and IDME and IDIT were dissolved.

On September 16, 2014 pursuant to a share and loan purchase agreement the Company acquired 100% of the issued and outstanding shares and certain parent company loans of Fortress Optical Features Ltd. ("FOF") a producer of optical thin film ("OTF") used as security threads in banknotes in several countries. The final part of the reorganization was to vertically amalgamate FOF into the Company as a single corporation.

Subsequent to the reorganization, the Company operates its business through two newly named business segments – Security Features (Nanotech and FOF's operations) and Surveillance (TTI). 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 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. The Company conducts research at its Burnaby head office, its research and production facility in Thurso, QC, Canada and at 4D Labs nanofabrication facility which is a Canadian federal government sponsored facility located at Simon Fraser University ("SFU") in Burnaby, BC.

The Security Features segment is developing nanotechnology and OTF for use in anti-counterfeiting and commercial product authentication systems, and is developing specialized optical features for use in banknotes and other products. The nano-technology employ 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 sophisticated equipment needed to create the arrays. These optical features can be directly applied to 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. 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 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. Surveillance conducts its research, production and training at its facility in Holmes, PA, USA

During the year, the Surveillance segment continued to build and outfit surveillance vans for undercover operations and delivered accredited classes in electronic surveillance. In the second half of the year they successfully launched the newly developed P-25 digital transmission system allowing federal, state and local law enforcement agencies to correspond to each other over a single frequency using both digital and analog frequencies, and the release of the Echo 8i that converts analog audio signals to digital, enabling secure smart-phone connectivity over the wireless.

RESULTS OF OPERATIONS

The consolidated financial statements for the year ended September 30, 2014 include the accounts of the Company and its wholly-owned subsidiaries, TTI and FOF (however only FOF's balance sheet has a material effect on the consolidated year end results because FOF's operating activities were only consolidated for the two week period between its September 16th, 2014 acquisition date and year end).

Selected Financial Information

Results of Operations	**2014**	**2013**	**2012**
Revenue	$2,229,494	$1,810,059	$2,083,598
Cost of sales	1,477,432	1,381,398	1,642,612
	752,062	428,661	440,986
Expenses			
Research and development	2,092,012	733,590	739,431
General and administration	2,445,432	1,191,434	696,233
Sales and marketing	664,003	565,169	467,145
	5,201,447	2,490,193	1,902,809
Loss before other items	(4,449,385)	(2,061,532)	(1,461,823)
Other expenses (income)	(173,828)	(12,215)	69,540
Loss before income tax recovery	(4,275,557)	(2,049,317)	(1,531,363)
Income tax recovery	3,892,450	-	-
Net loss	$(383,107)	$(2,049,317)	$(1,531,363)
Net loss per common share – basic and diluted	$(0.01)	$(0.07)	$(0.05)

Financial Position, at September 30	**2014**	**2013**	**2012**
Total Assets	$29,749,852	$11,751,728	$1,904,667
Total long-term financial liabilities	6,100,000	1,388,458	-
Shareholders' Equity	22,027,680	9,014,089	1,468,698

Revenue

Consolidated revenues for the year ended September 30, 2014 increased by $419,435 or 23% to $2,229,494 compared to $1,810,059 in the same period last year. The increased revenue was a result of increased sales in Surveillance due to the launch of two new products midway through the year. The P-25 digital transmission system that combines both an improved encryption capability with availabilities for government agencies to communicate with other agencies on a standard platform and the release of the Echo 8i that converts analog audio signals to digital, enabling secure smart-phone connectivity over the wireless.

Gross margin

Gross margin for the year ended September 30, 2014 increased by $323,401 or 75% to $752,062 compared to $428,661 last year. The increased gross margin was a result of both the increased revenue levels and higher margins on the product lines. Additionally, royalty fees paid by Nanotech to IDME in 2013 and expensed to cost of goods sold were eliminated on consolidation this year due to Nanotech's acquisition of IDME in September 2013.

Research & development

Research and development expenditures increased by $1,358,422 or 185% to $2,092,012 compared to $733,590 last year. The increase was a result of amortization of $1,363,282 relating to value assigned to the Intangible assets of IDME and IDIT after their acquisition.

R&D expenditures were offset by funds of $122,722 (2013 – $ nil) from various government 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 year ended September 30, 2014 were $2,445,432, an increase of $1,253,998 compared to $1,191,434 last year. The increase was a result of increased office salaries, professional fees of $258,376 related to the FOF acquisition, and an increase in share based payments of $274,926 compared to last year.

Sales and Marketing

Sales and marketing expenditures for the year ended September 30, 2014 were $664,003, an increase of $98,834 compared to $565,169 last year due to increased investor relations expenditures and travel expenses incurred.

Net loss

The Net loss decreased from $2,049,317 to $383,107 as a result of increased amortization related to intangible assets of $1,363,282, professional fees related to the FOF acquisition of $258,376, an increase in share based payments of 274,926 and an increase in office salaries and administrative costs offset by a deferred income tax recovery of $3,892,450 as a result of the application of the Company's previously unrecorded loss carryforwards subsequent to the amalgamation of IDME and IDIT and the acquisition of FOF.

SEGMENT RESULTS

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 light based recognition nanotechnology and OTF for use in anti-counterfeiting and authentication processes and products including currency, legal documents, and commercial products.

	2014	2013
Revenue	$80,262	$2,888
Loss before income taxes	$(4,206,982)	$(1,858,830)

Revenues from Security Features for 2014 increased to $80,262 from $2,888 for 2013. The increased revenue was the result of the commercialization of the KolourOptik and the acquisition of FOF on September 16, 2014.

Net loss from Security Features for 2014 increased by $2,348,152 to $4,206,982 from $1,858,830 for 2013 as a result of increased amortization of $1,363,282 relating to the Intangible assets acquired of IDME and IDIT, and an overall increase in general and administrative costs including office salaries, professional fees related to the FOF acquisition, and share based payments.

Surveillance

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

	2014	2013
Revenue	$2,149,232	$1,807,171
Net loss before income taxes	$(68,575)	$(190,487)

Revenues from Surveillance for 2014 increased to $2,149,232 from $1,807,171 for 2013. The increased revenue was a result of 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.

Net loss from Surveillance for 2014 decreased to $68,575 from $190,487 for 2013. The decreased net loss was a result of increased revenues including the launch of the new higher margin product line.

QUARTERLY RESULTS

($ thousands, except common share amounts)	Q4 2014	Q3 2014	Q2 2014	Q1 2014	Q4 2013	Q3 2013	Q2 2013	Q1 2013
Revenue	$488	$603	$578	$560	$459	$403	$410	$538
Net income (loss)	2,285	(1,116)	(859)	(693)	(727)	(525)	(477)	(320)
Net income (loss) per common share:								
Basic	0.05	(0.03)	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)	(0.01)
Diluted	0.04	(0.03)	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)	(0.01)

This table reflects quarterly results after giving effect to the retrospective restatement throughout each of the quarters in fiscal 2014, relating to the finalization of the IDME / IDIT purchase price allocation. The annual amortization of $1,363 has been charged equally through each of the 2014 quarters presented. The fourth quarter of 2014 reflects a deferred tax recovery of $3,892 that was recognized. As a result the 2014 quarterly Net income (loss) for the fourth quarter 2014 was $2,285 on revenues of $488. This compares to net loss of $(727) and revenues of $459 for the fourth quarter of 2013.

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

RELATED PARTY TRANSACTIONS

For the year ended September 30, 2014, 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:

		2014		2013
Salaries and employee benefits	$	431,369	$	200,040
Share based payments		156,383		-
	$	587,752	$	200,040

(b) Management fees totaling $381,500 (2013 - $245,800) charged by a company controlled by an officer and director of the Company, were included in salaries and benefits expense. As of September 30, 2014, amounts owing to this company included in accounts payable and accrued liabilities were $286,490 (2013 - $339,252).

(c) Legal and professional fees, taxes and disbursements totaling $446,695 (2013 - $106,676) were incurred with a law firm of which a director of the Company is a partner. As of September 30, 2014, amounts owing to this company included in accounts payable and accrued liabilities were $425,370 (2013 - $86,060).

(d) Laboratory rental, materials and fees totaling $nil (2013 - $480,000) 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.

(e) As of September 30, 2014, included in accounts payable and accrued liabilities were nil (2013 - $108,500) owing to a 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.

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 September 30, 2014, cash and cash equivalents totaled $3,964,645, compared to $4,155,811 as at September 30, 2013.

Summary of Statement of Cash Flow

	2014	2013
Cash used in operating activities[1]	$ (2,454,135)	$(1,760,772)
Changes in operating assets and liabilities	(325,787)	464,230
Cash used in operating activities	(2,779,922)	(1,296,542)
Cash used in investing activities	(7,143,528)	(41,668)
Cash provided by financing activities	9,777,622	4,252,412
Effect of foreign currency translation on cash and cash equivalents	(45,338)	(12,840)
Cash and cash equivalents, beginning of year	4,155,811	1,254,449
Cash and cash equivalents, end of year	$3,964,645	$4,155,811

[1] Before changes in operating assets and liabilities

Operating Activities
Cash used in operating activities was $2,779,922 for the year ended September 30, 2014, compared to $1,296,542 last year. The increase in cash used relates to an overall increase in operating costs and cash uses in working capital.

Investing Activities
Cash used in investing activities was $7,143,528 for the year ended September 30, 2014, compared to $41,668 last year. The increase relates to the acquisition of FOF on September 16, 2014.

Financing Activities
Cash provided by financing activities was $9,777,662 for the year ended September 30, 2014, compared to $4,252,412 last year. For the year ended September 30, 2014, $9,366,072 was generated from private placements compared to $4,129,912 last year, $197,800 from the exercise of share options compared to $122,500 last year, and $213,750 from the exercise of share warrants compared to $nil last year.

Contractual Obligations
The following table quantifies our future contractual obligations as at September 30, 2014:

	Payments due by period		
	Total	Less than 1 year	1-3 years
Premises leases	$323,757	$143,750	$180,007

*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 $18,618,407 as of September 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 will most likely 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 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 year ended September 30, 2014, there were no other changes in our approach to capital management.

The capital of the Company consists of the items included in the Consolidated Balance Sheets in the shareholders' equity section and the secured note payable. As at September 30, 2014 shareholders' equity was $22,027,680 compared to $9,014,089 as at September 30, 2013.

As at September 30, 2014 cash and cash equivalents amounted to $3,964,645, compared to $4,155,811 as at September 30, 2013.

As at September 30, 2014, the Company had working capital of $3,656,267, as compared to $3,501,690 at September 30, 2013.

The Company has a note payable outstanding of $3,000,000 as at September 30, 2014 compared to $nil last year. It bears interest at 4% per annum and the principal is due in September 2017. Monthly interest payments are required prior to the maturity date. The note payable was used to finance some of the real estate assets acquired on the acquisition of FOF. The note payable is secured by the assets of the Company.

Included in long term liabilities is an amount for 3,000,000 issued but escrowed common shares ("Contingent Shares") contingently releasable to the vendor of FOF, of $3,100,000. As partial consideration for the acquisition of FOF, the Company has agreed to release these Contingent Shares based upon the achievement of certain milestones. Because the number of Contingent Shares which will be released based upon the milestone achievements is variable, IFRS requires that such shares be classified as a liability until the milestones are achieved. The Contingent Shares liability will be settled with the release of the Contingent Shares and will not impact the capital resources available for other purposes. Any Contingent Shares for which the release criteria are not met will be returned to the Company for cancellation and a reduction of the related liability amount.

The Company had 48,307,934 common shares issued and outstanding at September 30, 2014 (excluding the 3,000,000 Contingent Shares held in escrow), compared to 38,756,136 at September 30, 2013. The Company had 1,567,000 stock options outstanding at September 30, 2014 with a weighted average exercise price of $1.38 compared to 960,000 outstanding as at September 30, 2013 with a weighted average exercise price of $0.80. The company had 6,013,176 warrants outstanding as at September 30, 2014 with a weighted average exercise price of $1.49 compared to 2,605,250 outstanding as at September 30, 2013 with a weighted average exercise price of $0.90.

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

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

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 requirements through September 30, 2015.

Financial Instruments
The Company considers the management of financial risk to be an important part of its overall corporate risk management policy. The nature and extent of risks arising from financial instruments, and their related risk management are described in note 13 of the consolidated financial statements for the year ended September 30, 2014. In the year ended September 30, 2014, there was no material change to the nature of the risks arising from our classification of financial instruments, or related risk management objectives.

SIGNIFICANT ACCOUNTING POLICIES AND THE USE OF ESTIMATES

The preparation of financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and expenses. Estimates and assumptions are continually evaluated and are based on historical experience and various factors that management believes to be reasonable under the circumstances. However, due to the nature of estimates, actual results may differ from estimates.

The Company's significant accounting policies are contained in note 3 to the consolidated financial statements. Significant areas requiring the use of judgment in application of accounting policies and assumptions and estimates are discussed below.

Business combinations
In a business combination, all assets, liabilities and contingent liabilities acquired or assumed are recorded at their fair values at the date of acquisition. Management uses judgment when estimating fair values of the net assets acquired and any contingent consideration to be recognized as part of the initial purchase consideration. The fair value of intangible assets acquired is determined using valuation techniques that require estimation of replacement costs, future net cash flows and discount rates. Changes in estimates and assumptions used could have a material impact on the amount of goodwill recorded and the amount of depreciation and amortization expense recognized in earnings for depreciable assets in future periods.

Fair valuation of financial instruments
IFRS requires financial instruments to be measured at fair value as at the balance sheet date. In determining fair value, the Company must estimate the price that market participants would sell for, or buy at, in an active liquid market, if there was one. Current market conditions, in which some financial instruments may lack an active market, make it more difficult for the Company to estimate fair value. While management believes the estimates of fair values at the balance sheet date are reasonable, differences in estimates could have an impact on the financial position and results of operations of the Company.

Impairment of non-financial assets
Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less liabilities assumed, based on their fair values. Goodwill is not amortized and is tested for impairment at least annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. Goodwill is considered to be impaired when the carrying amount of the cash generating unit or group of cash generating units to which the goodwill has been allocated exceeds its fair value. An impairment loss, if any, would be recognized as a separate line item in the statement of earnings.

Intangible assets, acquired individually or with a group of other assets, are initially recognized and measured at cost. The cost of a group of intangible assets acquired in a transaction, including those acquired in a business combination that meet the specified criteria for recognition apart from goodwill, is allocated to the individual assets acquired based on their relative fair values. Intangible assets with finite useful lives are amortized over their estimated useful lives, and are tested for impairment when events or changes in circumstances indicate that an asset might be impaired. The amortization methods and estimated useful lives of intangible assets are reviewed annually. Intangible assets with indefinite useful lives are not amortized and are tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test compares the carrying amount of the intangible asset with its fair value, and an impairment loss would be recognized in income for the excess of carrying value over fair value, if any.

The Company performs impairment tests for goodwill, intangible assets with indefinite lives and other assets periodically as described above. Impairment tests involve considerable use of judgment and require management to make estimates and assumptions. The fair values of cash generating units are derived from certain valuation models, which consider various factors such as discount rates, future earnings and perpetual growth rates. Changes in estimates and assumptions can affect the reported value of goodwill and intangible assets with indefinite useful lives.

Provisions
The Company records a provision when an obligation to a third party exists, the payment is probable and the amount can be reasonably estimated. The Company records a provision based upon the best estimate of the expenditure required to settle the present obligation at the balance sheet date. While management believes these estimates are reasonable, differences in actual results or changes in estimates could have an impact on the liabilities and results of operations recorded by the Company.

Share-based compensation
The Company measures the fair value of its share-based compensation awards using the Black-Scholes option pricing model and recognizes the fair value expense on a straight-line basis over the relevant vesting period. Management uses judgment to determine the inputs to the Black-Scholes option pricing model including expected plan lives, underlying share price volatility and forfeiture rates. Changes in these assumptions could have a material impact on the calculation of fair value and the amount of compensation expense recorded in earnings.

Investment tax credits
The Company recognizes investment tax credits when there is reasonable assurance that they will be realized. Investment tax credits may be carried forward to reduce future Canadian federal and provincial income taxes payable. The Company applies judgment when determining whether the reasonable assurance threshold has been met to recognize investment tax credits in the consolidated financial statements. The Company must interpret eligibility requirements in accordance with Canadian income tax laws and must assess whether future taxable income will be available against which the investment tax credits can be utilized. Any changes in these interpretations and assessments could have a material impact on the amount and timing of investment tax credits recognized in the consolidated financial statements.

Income taxes
The Company is subject to taxation in numerous jurisdictions and exercises judgment in estimating the provision for federal, provincial, and foreign income taxes. Income tax laws and regulations can be complex and are potentially subject to different interpretation between the Company and the respective tax authority. Provisions for tax are made using the Company's best estimate of the amount of tax expected to be paid or recovered based on an assessment of all relevant factors. However, the precision and reliability of the estimates are subject to uncertainty and may change as additional information becomes known.

Deferred tax assets are recognized only when it is probable that sufficient taxable profit will be available in future periods against which deductible temporary differences may be utilized. The recognition of deferred income tax assets involves considerable use of judgment and requires management to make estimates and assumptions, including estimates of projected taxable income, the timing of the reversal of temporary differences, the tax rates and laws in each respective jurisdiction and the impact of tax planning strategies. The amount of recognized deferred tax assets may change from period to period due to the uncertainties surrounding these assumptions.

Inventory
Inventory is measured at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses taking into account the most reliable evidence available at each reporting date. The future realization of the inventory may be affected by future technology or other market-driven changes that may reduce future selling prices. While management believes that the estimates of net realizable value as at the balance sheet date are reasonable, differences in estimates could have an impact on the inventory valuation and results of operations of the Company.

Property, plant and equipment
Property, plant and equipment is measured at cost less accumulated depreciation and accumulated impairment losses. Depreciation expense is recognized based on management's best estimate of the useful lives of the depreciable assets. The Company reviews the estimated useful life annually and recognizes any adjustment as appropriate. While management believes that the estimates of useful lives of depreciable assets as at the balance sheet date is reasonable, differences in estimates could impact the valuation of depreciable assets and the results of operations of the Company.

NEW ACCOUNTING STANDARDS

On October 1, 2013, the Company adopted the following accounting standards and amendments issued by the IASB:

- Amendments to IAS 1 - *Presentation of Financial Statements*
- Amendments to IFRS 7 - *Financial Instruments: Disclosures*
- IFRS 10 - *Consolidated Financial Statements*
- IFRS 11 - *Joint Arrangements*
- IFRS 12 - *Disclosure of Interests in Other Entities*
- IFRS 13 - *Fair Value Measurement*

The adoption of these accounting standards resulted in additional note disclosure and minor changes to presentation in the Company's statement of comprehensive income, but otherwise did not have a significant impact on the Company's consolidated financial statements.

BUSINESS RISKS AND UNCERTAINTIES

The Company is subject to a number of risks and uncertainties that can significantly affect its business, financial condition and future financial performance. The Company has a comprehensive process to identify, manage, and mitigate risk, wherever possible. The risks and uncertainties described below are not necessarily the only risks the Company faces. Additional risks and uncertainties that are presently unknown to the Company or deemed immaterial by the Company may adversely affect the Company's business.

History of operating losses and negative cash flow
We continue to be an expenditures based entity and have incurred substantial losses since our inception and continue to incur losses and experience negative cash flows. We cannot predict if or when we will operate profitably or generate positive cash flows or if we will be able to implement our business strategy successfully. Pursuing our business strategy requires us to incur significant expenditures for research and product development, marketing, and general administrative activities. As a result, we need to continue to grow our revenues and gross margins to achieve and sustain profitability and positive operating cash flows, and we may need to raise additional capital.

Financing Arrangements
Execution of our business plan and our commercial viability could be jeopardized if we are unable to raise additional funds for our product development and commercialization plans, to fund working capital, R&D projects, sales, marketing and product development activities, and other business opportunities. We attempt to mitigate this risk by generating funds from a variety of sources including: through the sale of common equity, government funding, collaboration partners, vendor financing and revenues from our commercial products.

If the cash generated from the Company's business continues to be insufficient to fund future capital requirements, the Company will require additional financing. The Company's ability to access capital markets on terms that are acceptable will be dependent on prevailing market conditions, as well as the Company's future financial condition. Although the Company does not have any particular reason to anticipate unusual difficulties in raising funds in the future, there can be no assurance that capital will be available on suitable terms and conditions or at all.

Government Contracts and Funding
Changes in government policies, priorities or regulations, or funding levels through agency or program budget reductions, the imposition of budgetary constraints or the lack of government appropriations or the delay and/or deferment in governmental contract approvals or in government programs could have a material adverse effect on the Company's financial condition, results of operations or future growth. A decline in governmental support and funding for programs in which the Company or its customers participate could result in contract terminations, delays in contract rewards, the failure to exercise contract options, the cancellation of planned procurements and fewer new business opportunities, any of which could have a material adverse effect on the Company's financial condition and results of operation.

Quality Issues and Contract Performance
The Company sells complex products that can contain defects in design, manufacture and implementation. The products that the Company develops and manufactures are technologically advanced and complex. Defects may also occur in components and products that the Company purchases from third parties. The Company employs sophisticated design and testing processes. However, there can be no assurance that the Company's products will be successfully implemented or will pass required acceptance criteria. There can be no assurance that the Company will be able to detect and fix all defects in the products it sells. Failure to do so could result in lost revenue, harm to reputation, and significant warranty and other expenses, and could have a material adverse impact on the Company's financial condition and operating results. In addition, a failure with respect to any product may adversely affect the perception by the Company's customers of the quality of its products and may materially and adversely affect the Company's ability to win new contracts.

Acquisitions
The Company has in the past and may continue to expand its operations and business by acquiring additional businesses, products or technologies. There can be no assurance that the Company will be able to identify, acquire, obtain the required regulatory approvals, or profitably manage additional businesses or successfully integrate any acquired businesses, products or technologies into the Company without substantial expenses, delays or other operational, regulatory, or financial problems. Furthermore, acquisitions may involve a number of additional risks, including diversion of management's attention, failure to retain key personnel, unanticipated events or circumstances and unidentified pre-closing liabilities and other legal liabilities, some or all of which could have an adverse effect on the Company's business, results of operations and financial condition. In addition, there can be no assurance that acquired businesses, products or technologies, if any, will achieve anticipated revenues and income growth. Acquisitions could also result in potentially dilutive issuances of equity securities. The failure of the Company to manage its acquisitions strategy successfully could have a material adverse effect on the Company's business, results of operations and financial condition.

Fixed costs
The Company requires a staff of specialized workers, as well as specialized manufacturing and test facilities, in order to perform under its contracts. In order to maintain its ability to compete, the Company must continuously retain the services of a core group of specialists. This reduces the Company's flexibility to reduce workforce costs in the event of a slowdown or downturn in its business. In addition, the manufacturing and test facilities that the Company owns or leases under long-term agreements are fixed costs that cannot be adjusted quickly to account for significant variance in production requirements or economic conditions.

Dependence on Key Personnel
The success of the Company is largely dependent on the abilities and experience of its executive officers and other key personnel. Competition for highly skilled management, technical, research and development and other personnel is intense in the Company's industry. There can be no assurance that the Company can retain its current executive officers or key personnel or attract and retain additional executive officers or key personnel as needed. The loss of certain executive officers or key personnel could have an adverse impact upon the Company's growth, operations and profitability.

Technological Change
The banknotes, branding and security surveillance markets in which the Company operates are characterized by changing technology and evolving industry standards. The Company's actual and planned products embody complex technology and may not always be compatible with current and evolving technical standards developed by others. Failure or delays by the Company to meet or comply with the requisite and evolving industry or user standards could have a material adverse effect on the Company's business, results of operations and financial condition. The Company's ability to anticipate changes in technology, technical standards and the needs of the industries it serves or proposes to serve will be a significant factor in the Company's ability to compete or expand into new markets.

Retention of Markets and Development of New Offerings
The Company may experience design, manufacturing, marketing and other difficulties that could delay or prevent the development, introduction or acceptance of new products and enhancements. There can be no assurance that the Company will be able to anticipate and achieve the technological advances necessary to remain competitive and profitable, that new products or enhancements will be developed and manufactured on schedule or on a cost-effective basis or that the Company's existing products will not become technologically obsolete. The Company's failure to accurately predict the needs of current and prospective customers, and to develop products or enhancements that address those needs, may result in the loss of current customers or the inability to secure new customers.

Significant Competition

Many of the Company's competitors are larger and have substantially greater resources than the Company. Furthermore, it is possible that other domestic or foreign companies or governments, some with greater experience in the industry in which the Company operates and many with greater financial resources than the Company possesses, could seek to produce products that compete with the Company's products, including using new technology which could render the Company's products less competitively viable. Some of the Company's foreign competitors currently benefit from, and others may benefit in the future from, subsidies or protective measures by their home countries. Furthermore, government agencies may at any time decide to perform similar work as the Company either for themselves or for other government agencies, effectively competing with the Company.

The Company's financial performance is dependent on its ability to generate a sustainable order rate for its manufacturing operations. This can be challenging and may fluctuate on an annual and quarterly basis as the number of contracts awarded varies and is difficult to predict. There is also competitive pressure on pricing and other material contractual terms, such as those allocating risk between the manufacturer and its customers.

Intellectual Property Rights

To protect the Company's proprietary rights, the Company relies on a combination of patent protections, copyrights, trade secrets, trademark laws, confidentiality agreements with employees and third parties, and protective contractual provisions such as those contained in licence agreements with consultants, subcontractors, vendors and customers. Despite these efforts, the Company's intellectual property rights may be invalidated, circumvented, challenged, infringed or required to be licensed to others, which could have a material adverse effect on the Company's business, financial condition or operating results. An infringement or misappropriation could harm any competitive advantage the Company currently derives or may derive from its proprietary rights. Litigation may be necessary to enforce or protect the Company's intellectual property rights, protect its trade secrets or determine the validity and scope of the proprietary rights of others. Such litigation may be time-consuming and expensive to prosecute or defend and could result in the diversion of the Company's time and resources.

If any of the Company's technology violates proprietary rights, including copyrights and patents, third parties may assert infringement claims against the Company. Any claims from third parties may also result in limitations on the Company's ability to use the intellectual property subject to these claims. The Company may be required to redesign its products or obtain licences from third parties to continue offering the Company's products without substantially re-engineering such products or defending itself and its customers against infringement claims and liability for damages. This may affect the Company's operations and, in addition, the Company could suffer substantial costs in defending itself against infringement claims.

Economic and Political Conditions

Customer demand for the Company's products may be affected by economic and political conditions on an international, country and regional level. For example, changes in interest rates, foreign exchange rates, credit availability, the level of government spending, the cyclical nature of the market, and political decisions may adversely influence the Company's sales or the Company's ability to access certain funding.

Security Environment

Many of the Company's customers have specific security requirements relating to the work that can be performed for it. These requirements can change quickly and with little notice causing reduction or even elimination of potential work for the Company and the ability of the Company to participate in future business. Any reduction or elimination of work could have an adverse effect on the revenues and margins of the Company.

Insurance
The Company maintains an extensive program of insurance coverage in the normal course of business, consistent with similar businesses. In addition, the insurance program covers some of the unique risks encountered by the Company. Although the limits and deductibles of such insurance have been established through risk analysis and the recommendation of professional advisors, there can be no assurance that such insurance will remain available to the Company at commercially reasonable rates or that the amount of such coverage will be adequate to cover all liability incurred by the Company. If the Company is held liable for amounts exceeding the limits of its insurance coverage or for claims outside the scope of that coverage, its business, results of operations and financial condition could be adversely affected.

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*™, as well as pursuing OTF opportunities. 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.

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 January 27, 2015 is as follows:

Issued common shares	48,390,434
Warrants	5,930,676
Stock options	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
Subsequent to the year end, the Company entered into an office lease commencing on May 1, 2015 for a 5 year term with annual rent and operating costs totaling approximately $195,000.

Consolidated Financial Statements
(Expressed in Canadian dollars)

NANOTECH SECURITY CORP.

Years ended September 30, 2014 and 2013

Nanotech Security Corp.
September 30, 2014 and 2013

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Nanotech Security Corp.

We have audited the accompanying consolidated financial statements of Nanotech Security Corp., which comprise the consolidated statement of financial position as at September 30, 2014, the consolidated statements of operations and comprehensive loss, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Nanotech Security Corp. as at September 30, 2014, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards**.**

Emphasis of Matter

Without qualifying our opinion, we draw attention to note 1(b) to the consolidated financial statements which indicates that Nanotech Security Corp. has sustained a loss in the year ended September 30, 2014 and in recent years and Nanotech Security Corp.'s ability to generate future profitable operations is uncertain. These conditions, along with other matters as set forth in note 1(b) to the consolidated financial statements, indicate the existence of a material uncertainty that may cast significant doubt about Nanotech Security Corp.'s ability to continue as a going concern.

Comparative Information

Without modifying our opinion, we draw attention to note 5(c) to the consolidated financial statements which indicates that the comparative information presented as at and for the year ended September 30, 2013, has been restated and that the comparative information presented as at October 1, 2012, has been derived from the consolidated financial statements as at and for the year ended September 30, 2012.

The consolidated financial statements of Nanotech Security Corp. as at and for the years ended September 30, 2013, and September 30, 2012, (from which the statement of financial position as October 1, 2012, has been derived), excluding the restatement described in note 5(c) to the consolidated financial statements, were audited by another auditor who expressed an unmodified opinion on those financial statements on January 28, 2014.

As part of our audit of the consolidated financial statements as at and for the year ended September 30, 2014, we audited the restatement described in Note 5(c) to the consolidated financial statements that was applied to restate the comparative information presented as at and for the year ended September 30, 2013. In our opinion, the restatement is appropriate and has been properly applied.

We were not engaged to audit, review, or apply any procedures to the September 30, 2013, consolidated financial statements, the September 30, 2012, consolidated financial statements (not presented herein) or the October 1, 2012, consolidated statement of financial position, other than with respect to the restatement described in Note 5(c) to the consolidated financial statements. Accordingly, we do not express an opinion or any other form of assurance on those financial statements taken as a whole.

KPMG LLP

Chartered Accountants

January 27, 2015
Vancouver, Canada

Nanotech Security Corp.

Consolidated Statements of Operations and Comprehensive Loss
Years ended September 30, 2014 and 2013
(In Canadian dollars)

	2014	2013
Revenue	$2,229,494	$ 1,810,059
Cost of sales	1,477,432	1,381,398
Gross profit	752,062	428,661
Expenses (note 18)		
Research and development (note 9)	2,092,012	733,590
General and administration	2,445,432	1,191,434
Sales and marketing	664,003	565,169
	5,201,447	2,490,193
Loss before other expenses (income) and income taxes	(4,449,385)	(2,061,532)
Other expenses (income)		
Foreign exchange gain	(84,490)	(69,259)
Interest income	(14,396)	-
Finance expense	13,903	7,044
Gain on revaluation of contingent shares	(80,000)	-
Gain on sale of fixed asset	(8,845)	-
Loss on write off of investment	-	50,000
	(173,828)	(12,215)
Loss before income taxes	(4,275,557)	(2,049,317)
Deferred income tax recovery (note 14)	3,892,450	-
Net loss	(383,107)	(2,049,317)
Unrealized foreign exchange gain (loss) on translation of foreign operation	(42,920)	(11,250)
Total comprehensive loss for the year	$ (426,027)	$ (2,060,567)
Loss per share		
Basic and diluted	$ (0.01)	$ (0.07)
Weighted average number of common shares		
Basic and diluted	39,383,910	29,743,204

See accompanying notes to consolidated financial statements

Nanotech Security Corp.

Consolidated Statements of Changes in Equity
Years ended September 30, 2014 and 2013
(In Canadian dollars)

	Number of shares	Share capital	Share Based Payment Reserve	Deficit	Accumulated other comprehensive income	Total shareholders' equity
Balance as at September 30, 2012	**28,615,533**	**$ 16,933,984**	**$ 610,152**	**$ (16,075,059)**	**$ (379)**	**$ 1,468,698**
Net loss	-	-	-	(2,049,317)	-	(2,049,317)
Unrealized foreign exchange loss on translation	-	-	-	-	(11,250)	(11,250)
Share issued on business acquisition (note 5)	3,705,103	5,161,400	-	-	-	5,161,400
Private placement (net of share issue costs of $38,592) (note 11(a))	5,210,500	4,129,912	-	-	-	4,129,912
Share based payments (note 11(b))	-	-	207,070	-	-	207,070
Options exercised (note 11(b))	1,225,000	184,584	(62,084)	-	-	122,500
Non-controlling interests (note 5)	-	-	-	-	-	(14,924)
Balance as at September 30, 2013	**38,756,136**	**26,409,880**	**755,138**	**(18,124,376)**	**(11,629)**	**9,014,089**
Net loss	-	-	-	(383,107)	-	(383,107)
Unrealized foreign exchange loss on translation	-	-	-	-	(42,920)	(42,920)
Shares issued on acquisition of non-controlling interest (note 5)	60,000	96,000	-	(96,000)	-	-
Acquisition of non-controlling interest (note 5)	-	-	-	(14,924)	-	-
Share issued on business acquisition (note 6)	2,000,000	3,180,000	-	-	-	3,180,000
Contingent shares issued on acquisition (note 5)	234,897	-	-	-	-	-
Private placement (net of share issue costs of $792,154) (note 11(a))	6,772,151	9,366,072	-	-	-	9,366,072
Share based payments (note 11(b))	-	-	481,996	-	-	481,996
Options exercised (note 11(b))	247,250	291,364	(93,564)	-	-	197,800
Warrants exercised (note 11 (c))	237,500	213,750	-	-	-	213,750
Balance as at September 30, 2014	**48,307,934**	**$ 39,557,066**	**$ 1,143,570**	**$ (18,618,407)**	**$ (54,549)**	**$ 22,027,680**

See accompanying notes to consolidated financial statements

Nanotech Security Corp.

Consolidated Statements of Financial Position
as at September 30, 2014 and 2013
(In Canadian dollars)

	2014	2013
		(restated) (note 5(c))
Assets		
Current assets:		
Cash and cash equivalents	$ 3,964,645	$ 4,155,811
Accounts receivable (note 13(b))	526,410	362,111
Inventory (note 7)	598,526	310,904
Prepaid expenses and other assets	188,858	22,045
	5,278,439	4,850,871
Property plant and equipment (note 8)	18,995,321	61,897
Intangible assets (note 9)	4,087,634	5,450,502
Goodwill (note 5)	1,388,458	1,388,458
	$ 29,749,852	$ 11,751,728
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 1,597,172	$ 1,349,181
Deferred revenue	25,000	-
	1,622,172	1,349,181
Long term liabilities:		
Note payable (note 10)	3,000,000	-
Contingent consideration shares (note 6)	3,100,000	-
Deferred income tax (note 5 and 14)	-	1,388,458
	7,722,172	2,737,639
Shareholders’ equity		
Share capital (note 11(a))	39,557,066	26,409,880
Share based payment reserve	1,143,570	755,138
Deficit	(18,618,407)	(18,124,376)
Accumulated other comprehensive income	(54,549)	(11,629)
Equity attributable to shareholders of the Company	22,027,680	9,029,013
Non-controlling interests (note 5)	-	(14,924)
	22,027,680	9,014,089
	$ 29,749,852	$ 11,751,728

Nature of operations and going concern (note 1(b))
Related party transactions (note 15)
Contingencies (note 19)
Commitments (note 20)
Subsequent events (note 21)
See accompanying notes to consolidated financial statements

Nanotech Security Corp.

Consolidated Statements of Cash Flows
Years ended September 30, 2014 and 2013
(In Canadian dollars)

	2014	2013
Operating activities:		
Net loss	$ (383,107)	$ (2,049,317)
Items not involving cash:		
Depreciation and amortization	1,428,271	31,475
Deferred income taxes	(3,892,450)	-
Share based compensation	481,996	207,070
Loss on write-off of investment	-	50,000
Gain on sale of asset	(8,845)	-
Gain on revaluation of contingent consideration shares	(80,000)	-
Non-cash working capital changes (note 16)	(325,787)	464,230
Cash used in operating activities	(2,779,922)	(1,296,542)
Investing activities:		
Acquisition of FOF, net of cash acquired (note 6)	(7,061,000)	-
Purchase of property and equipment, net of disposals	(82,528)	(41,668)
Cash used in investing activities	(7,143,528)	(41,668)
Financing activities:		
Proceeds of private placement, net of share issuance costs (note 11)	9,366,072	4,129,912
Issuance of shares for options exercised	197,800	122,500
Issuance of shares for warrants exercised	213,750	-
Cash provided by financing activities	9,777,622	4,252,412
Effect of foreign exchange on cash and cash equivalents	(45,338)	(12,840)
(Decrease) increase in cash and cash equivalents	(191,166)	2,901,362
Cash and cash equivalents, beginning of year	4,155,811	1,254,449
Cash and cash equivalents, end of year	$ 3,964,645	$ 4,155,811

See accompanying notes to consolidated financial statements

1. Summary of business and nature of operations and going concern:

(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 #308 - 2999 Underhill Avenue, Burnaby, British Columbia, Canada.

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 consolidated 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 $18,618,407 as of September 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 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 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. 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:

(a) Statement of compliance:

These consolidated financial statements have been prepared on a going concern basis in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The financial statements were approved by the Company's Board of Directors and authorized for issue on January 27, 2015.

(b) Basis of measurement:

These consolidated financial statements are presented in Canadian dollars and have been prepared on a historical cost basis, except for contingent consideration shares which are stated at fair value.

(c) Use of estimates, assumptions and 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 by management 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:

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

The Company determined and allocated the purchase price on recent acquisitions 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 the Company 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 can be up to one year from the acquisition date, management records adjustments to the assets acquired and liabilities assumed with the corresponding offset to goodwill.

2. Basis of preparation (continued):

(c) Use of estimates, assumptions and judgments (continued):

(ii) 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 impairment losses, if any. For purposes of impairment testing, goodwill is allocated to each of the Company's cash-generating units (or groups of cash-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 cash-generating 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.

(iii) Judgments:

Management uses judgment when applying accounting policies and when making estimates and assumptions as described above. The most significant areas that require judgment include determination of functional currency, determination of cash generating units and segments, and assessing the Company's ability to continue as a going concern.

3. Significant accounting policies:

(a) Basis of consolidation:

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, TTI and Fortress Optical Features Ltd. ("FOF"). All intercompany balances and transactions are eliminated on consolidation. The financial statements of the subsidiaries 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 FOF on September 16, 2014. Subsequently on October 1, 2014, FOF was amalgamated into the Company.

3. Significant accounting policies (continued):

(b) Business combination:

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets acquired by the Company, liabilities incurred by the Company to the former owners of the acquiree and the equity interests issued by the Company in exchange for control of the acquiree. Acquisition-related costs are generally recognized in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value, except that:

- Deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognized and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively;
- Liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Company entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 Share Based Payments at the acquisition date; and
- Assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer’s previously held equity interest in the acquiree (if any) over the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer’s previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity’s net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interest’s proportionate share of the recognized amounts of the acquiree’s identifiable net assets. The choice of measurement basis is made on a transaction-by-transactions basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

3. Significant accounting policies (continued):

(b) Business combination (continued):

When the consideration transferred by the Company in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not re-measured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is re-measured at subsequent reporting dates in accordance with IAS 39 Recognition and Measurement, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

If the initial accounting for the business combination is incomplete by the end of the reporting period in which the combination occurs, the Company reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

(c) Foreign currency translation:

The consolidated financial statements of the Company are presented in Canadian dollars. The functional currency of the Company and its Canadian subsidiaries is the Canadian dollar. TTI's functional currency is the U.S. dollar.

(i) Transactions in foreign currency:

Each entity within the consolidated group records transactions using its functional currency, being the currency of the primary economic environment in which it operates. Foreign currency transactions are translated into the respective functional currency of each entity using the foreign currency rates prevailing at the date of the transaction. Period end balances of monetary assets and liabilities in foreign currency are translated to the respective functional currencies using period end foreign currency rates. Foreign currency gains and losses arising from settlement of foreign currency transactions are recognized in earnings.

3. Significant accounting policies (continued):

(c) Foreign currency translation (continued):

(ii) Foreign operations translation:

The assets and liabilities of foreign operations are translated into Canadian dollars at period end foreign currency rates. Revenues and expenses of foreign operations are translated into Canadian dollars at average rates for the period. Foreign currency translation gains and losses are recognized in other comprehensive income. The relevant amount in accumulated other comprehensive income is reclassified into earnings upon disposition of a foreign operation.

(d) Revenue recognition:

Revenue is measured at the fair value of consideration received or receivable, net of discounts and after eliminating intercompany sales.

The Company’s contracts with customers may include multiple deliverables that fall within one or more of the revenue categories described below. Where revenue arrangements have separately identifiable components, the consideration received is allocated to each identifiable component and the applicable revenue recognition criteria are applied to each of the components

Revenue from the sale of products is recognized when all of the following conditions have been met:

- Title and risk involving the products are transferred to the buyer;
- The Company's managerial involvement over the goods ceases to exist;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the Company; and
- The costs incurred in respect of the transaction can be measured reliably.

If there is a requirement for customer acceptance of any products shipped, revenue is recognized only after customer acceptance has been received. Payments received in advance of the satisfaction of the Company’s revenue recognition criteria are recorded as deferred revenue.

Provisions are established for estimated product returns and warranty costs at the time revenue is recognized based on historical experience for the product.

Revenue from development contracts are recognized by reference to the stage of completion based on services performed to date as a percentage of total services to be performed or on a straight-line basis over the term of the contract if revenue is determined to be earned evenly.

3. Significant accounting policies (continued):

(e) Earnings per common share:

Basic net loss per common share is calculated using the weighted average number of common shares outstanding during the year.

Diluted net loss per share reflects the potential dilution of common share equivalents, such as outstanding stock options and warrants, in the weighted average number of common shares outstanding during the year, if dilutive. For this purpose, the "treasury stock method" is used for the assumed proceeds upon the exercise of outstanding stock options that are used to purchase common shares at the average market price during the period. For the periods presented, basic and diluted figures are the same as the exercise of all warrants or stock options would be anti-dilutive.

(f) Research and development:

Research costs are expensed in the period incurred. Development costs are capitalized and recorded as an intangible asset only if technical feasibility has been established and the Company expects to generate probable future economic benefits from the asset created on completion of development. The costs capitalized include materials, direct labour, directly attributable overhead expenditures and borrowing costs on qualifying assets. Other development costs are expensed in the period incurred. During the years ended September 30, 2014 and 2013, all development costs have been expensed.

(g) Government assistance and investment tax credits:

Government assistance includes government grants and investment tax credits and is recognized when there is reasonable assurance that the Company will comply with the relevant conditions and that the government assistance will be received. Government assistance that meets the recognition criteria and that relates to current expenses is recorded as a reduction of research and development expense.

Government assistance that meets the recognition criteria and that relates to the acquisition of an asset is recorded as a reduction of the cost of the related asset. If government assistance becomes repayable, the inception to date impact of assistance previously recognized in earnings is reversed immediately in the period that the assistance becomes repayable.

Investment tax credits are recorded using the cost-reduction method whereby the credits are deducted from the cost of the related asset or expenditure when there is reasonable assurance that the investment tax credit will be realized. Where a valuation allowance has been recorded against prior year's investment tax credits, the Company applies the credits on a first-in first-out basis with a recovery of prior year's investment tax credits recognized as an income tax recovery.

3. Significant accounting policies (continued):

(h) Financial instruments:

Financial assets and financial liabilities are initially measured at fair value and are subsequently re-measured based on their classification as described below. Transaction costs that are directly attributable to the acquisition or issuance of a financial asset or liability, other than financial assets and liabilities classified as at fair value through earnings, are added or deducted from the fair value of the respective financial asset or financial liability on initial recognition. Transaction costs that are directly attributable to the acquisition of a financial asset or financial liability classified as at fair value through earnings are recognized immediately in earnings.

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

(i) Financial assets:

Financial assets are classified into the following categories: financial assets at fair value through earnings, loans and receivables, and available for sale. The classification depends on the nature and purpose of the financial asset and is determined at the time of initial recognition.

- Financial assets at fair value through earnings:

  Financial assets are classified as at fair value through earnings when held for trading or if designated into this category. Financial assets classified as financial assets at fair value through earnings include derivative financial instruments that are not included in a qualifying hedging relationship. Financial assets classified as financial assets at fair value through earnings are measured at fair value with any gains or losses arising on re-measurement recognized in earnings. The Company does not have any financial assets classified as fair value through earnings.

- Loans and receivables:

  Loans and receivables include cash and cash equivalents, restricted cash, and non-derivative financial assets with fixed or determinable payments that are not quoted in an active market including trade and other receivables, orbital receivables, and notes receivable. Loans and receivables are initially measured at fair value and are subsequently re-measured at amortized cost using the effective interest method, less any impairment losses. The Company has classified cash and cash equivalents and accounts receivables as loans and receivables.

3. Significant accounting policies (continued):

(h) Financial instruments (continued):

(i) Financial assets (continued):

- Available-for-sale financial assets:

  Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified into any of the other categories and include short-term investments. Available-for-sale financial assets are measured at fair value with any gains or losses on re-measurement recognized in other comprehensive income until the financial asset is derecognized or is determined to be permanently impaired, at which time the gain or loss accumulated in equity is transferred to earnings. The Company does not have any financial assets classified as available-for-sale assets.

Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred, and the Company has transferred substantially all of the risks and rewards of ownership.

(ii) Financial liabilities:

Financial liabilities are classified as either financial liabilities at fair value through earnings or as other financial liabilities.

- Financial liabilities at fair value through earnings:

  Financial liabilities are classified at fair value through earnings when held for trading or if designated into this category. Financial liabilities classified as financial liabilities at fair value through earnings include derivative financial instruments that are not included in a qualifying hedging relationship and are measured at fair value with any gains or losses arising on re-measurement recognized in earnings. The Company has classified contingent shares as financial liabilities at fair value through earnings.

- Other financial liabilities:

  Other financial liabilities include trade and other payables, non-trade payables, contingent liabilities, long-term debt and are initially measured at fair value and are subsequently measured at amortized cost using the effective interest method. The Company has classified accounts payables and accrued liabilities, and secured note as other financial liabilities.

(i) Cash and cash equivalents:

Cash and cash equivalents is comprised of cash on hand, cash balances with banks and similar institutions and term deposits redeemable within three months or less from the date of acquisition with banks and similar institutions.

3. Significant accounting policies (continued):

(j) Inventory:

Inventory is measured at the lower of cost and net realizable value and consist primarily of raw materials used in the manufacturing of surveillance equipment and OTF. Raw materials cost is determined on a weighted average basis. The cost of work in process and finished goods includes the cost of raw material, direct labour and an allocation of related overheads. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(k) Property, plant and equipment:

Property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. The initial cost of an asset comprises its purchase price and any costs directly attributable to bringing the asset into working condition for its intended use. Repairs and maintenance costs are charged directly to the statement of operations as incurred. Depreciation is calculated using the following methods and annual rates:

	Estimated useful life
Laboratory and office equipment	20% declining balance
Manufacturing equipment	5% declining balance
Building	4% declining balance
Leasehold improvements	Lesser of lease term and 20% straight-line

The Company reviews the estimated useful life and the depreciation method annually.

(l) Intangible assets and goodwill:

(i) Intangible assets:

Intangible assets with finite lives consist of acquired intellectual property and are measured at cost less accumulated amortization and accumulated impairment losses. Cost for intangible assets acquired in a business combination represents the fair value of the asset at the time of the acquisition. Intangible assets with finite lives are amortized over four years. At September 30, 2014 and 2013, the Company did not have any indefinite life intangible assets other than goodwill.

3. Significant accounting policies (continued):

(l) Intangible assets and goodwill (continued):

(ii) Goodwill:

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any. Goodwill is not amortized but is tested for impairment annually or whenever there is an indication of impairment.

(m) Impairment:

(i) Financial assets:

Financial assets not carried at fair value through earnings are assessed for impairment at each reporting date. A financial asset is impaired if objective evidence indicates that a loss event which negatively affected the estimated future cash flows has occurred after the initial recognition of the asset. For financial assets measured at amortized cost, the impairment loss is the difference between the carrying amount and the present value of the estimated future cash flows, discounted at the original effective interest rate. If an impairment has occurred, the carrying amount of the asset is reduced, with the amount of the loss recognized in earnings. A permanent impairment loss for an available-for-sale investment is recognized by transferring the cumulative loss previously recognized in other comprehensive income to earnings.

3. Significant accounting policies (continued):

(m) Impairment (continued):

(ii) Non-financial assets:

Goodwill and non-financial assets are tested for impairment annually, or whenever events or changes in circumstances indicate that an asset's carrying amount may be less than its recoverable amount. Management uses judgment to estimate the inputs to these assessments and any changes to these inputs could have a material impact on the impairment calculation. For impairment testing, non-financial assets that do not generate independent cash flows are grouped together into a cash-generating unit ("CGU"), which represent the level at which largely independent cash flows are generated. Goodwill is allocated to groups of CGUs based on the level at which it is monitored for internal reporting purposes. An impairment loss is recognized in earnings to the extent that the carrying value of an asset, CGU or group of CGUs exceeds its estimated recoverable amount. The recoverable amount of an asset, CGU or group of CGUs is the greater of its value in use and its fair value less cost to sell. Value in use is calculated as the present value of the estimated future cash flows discounted at appropriate discount rates. An impairment loss relating to a specific asset reduces the carrying value of the asset. An impairment loss relating to a CGU or group of CGUs reduces the carrying value of the goodwill allocated to the CGU or group of CGUs, then reduces the carrying value of the other assets of the CGU or group of CGUs on a pro-rata basis. An impairment loss in respect of goodwill is not reversed. A previously recognized impairment loss related to other non-financial assets is assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss related to other non-financial assets is reversed if there is a subsequent increase in recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying value does not exceed the carrying value that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(n) Provisions:

Provisions represent liabilities for which the amount or timing is uncertain. Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where appropriate, the future cash flow estimates are adjusted to reflect risks specific to the liability.

3. Significant accounting policies (continued):

(o) Share-based payments:

The Company makes share-based payments to directors, consultants and employees and the compensation expense for share-based payment is determined based on the fair value at the grant date using the Black-Scholes option-pricing model and is recorded in the statement of operations over the vesting period. Management uses judgment to determine the inputs to the Black-Scholes option-pricing model including the expected plan lives, underlying share price volatility and forfeiture rates. Volatility is estimated by considering the Company's historic share price volatility over similar periods to the expected life of the awards under consideration. Changes in these assumptions will impact the calculation of fair value and the amount of compensation expense recognized in earnings. When stock options are exercised, any consideration paid by employees, as well as the related stock-based compensation, is credited to share capital.

(p) Income taxes:

Income tax expense is comprised of current and deferred tax. Current tax and deferred tax are recognized into earnings except to the extent that it relates to a business combination, or items recognized directly in other comprehensive income or share capital.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable earnings, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

Deferred tax assets are recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

3. Significant accounting policies (continued):

(q) Adoption of new accounting standards:

On October 1, 2013, the Company adopted the following accounting standards and amendments issued by the IASB:

- Amendments to IAS 1 - *Presentation of Financial Statements*
- Amendments to IFRS 7 - *Financial Instruments: Disclosures*
- IFRS 10 - *Consolidated Financial Statements*
- IFRS 11 - *Joint Arrangements*
- IFRS 12 - *Disclosure of Interests in Other Entities*
- IFRS 13 - *Fair Value Measurement*

The adoption of these accounting standards resulted in additional note disclosure and minor changes to presentation in the Company's statement of comprehensive income, but otherwise did not have a significant impact on the Company's consolidated financial statements.

4 New standards and interpretations not yet adopted:

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, 2017. The new standard are 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, 2017.

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.

4 New standards and interpretations not yet adopted:

IAS 32 - Offsetting Financial Assets and Liabilities

In December 2011, the IASB issued *Offsetting Financial Assets and Liabilities*, an amendment to IAS 32 - *Financial Instruments: Presentation*. The objective of this amendment to IAS 32 is to clarify when an entity has a right to offset financial assets and liabilities. The effective date of this standard is January 1, 2014. These amendments are to be applied retrospectively. The Company expects to apply this standard to its financial statements beginning on October 1, 2014 and does not expect the amendments to have a material impact on the financial statements.

Amendments to IAS 36 - Recoverable Amount of Disclosures For Non-Financial Assets

In May 2013, the IASB issued Amendments to IAS 36 - *Recoverable Amount of Disclosures For Non-Financial Assets*. The objective of the amendments was to clarify the disclosure requirements regarding the measurement of recoverable amounts related to goodwill and indefinite life intangible assets. The Company intends to adopt the amendments in its financial statements for the annual period beginning on October 1, 2014. As the amendments only require changes to certain disclosure requirements, the Company does not expect the amendments to have a material impact on the consolidated financial statements.

5. 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 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.

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.

5. Acquisitions of IDME and IDIT (continued):

(a) Continued:

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 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.

(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 retained earnings.

(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.

As prescribed by IFRS 3, these adjustments were applied retrospectively to the acquisition date of September 27, 2013 and are reflected in the comparative consolidated balance sheet as of September 30, 2013 on a retrospective basis. No adjustments were made to the comparative consolidated statement of earnings for the year ended September 30, 2013 as the impact was not material. 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.

(Expressed in Canadian dollars)

5. Acquisitions of IDME and IDIT (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:		
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.

The following table summarizes pro-forma annualized results of operations for the year ended September 30, 2013 assuming the acquisition date had been October 1, 2012:

Revenue	$	1,810,059
Net loss		(3,411,603)
Net loss per share		(0.09)

6. Acquisitions of FOF:

On September 16, 2014 pursuant to a share and loan purchase agreement (“Purchase Agreement”) with an arms-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.

(Expressed in Canadian dollars)

6. Acquisitions of FOF (continued):

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.

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 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 concurrently 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	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.

(Expressed in Canadian dollars)

6. Acquisitions of FOF (continued):

The following table summarizes pro-forma annualized results of operations for the year ended September 30, 2014 assuming the acquisition date had been October 1, 2013:

Revenue	$ 3,954,832
Net loss	(3,323,071)
Net loss per share	(0.07)

7. Inventory:

	2014	2013
Raw materials	$ 482,575	$ 208,170
Work in progress	50,570	102,734
Finished goods	65,381	-
	$ 598,526	$ 310,904

In 2014, the write-down of inventories to net realizable value amounted to $nil (2013- $nil). There were no reversals of previously recorded write-downs in 2014 or 2013. For the year ended September 30, 2014, the Company recognized inventories of $980,576 (2013- $810,605) as expenses through cost of sales

(Expressed in Canadian dollars)

8. Property, plant and equipment:

	Land	Building and leasehold improvement	Manufacturing equipment	Laboratory and office equipment	Total
Cost:					
Balance as at October 1, 2012	$ -	$ 23,892	$ -	$ 358,870	$ 382,762
Additions	-	-	-	41,831	41,831
Acquired on business combination	-	-	-	2,550	2,550
Foreign currency translation	-	1,145	-	16,272	17,417
Balance as at September 30, 2013	-	25,037	-	419,523	444,560
Additions	-	-	-	93,651	93,651
Acquired on business combination (note 6)	141,700	3,619,100	15,144,236	-	18,905,036
Disposals	-	-	-	(19,211)	(19,211)
Foreign currency translation	-	2,180	-	31,322	33,502
Balance as at September 30, 2014	$ 141,700	$ 3,646,317	$ 15,144,236	$ 525,285	$ 19,457,538
Accumulated depreciation					
Balance as at October 1, 2012	$ -	$ 22,330	$ -	$ 314,963	$ 337,293
Depreciation expense	-	1,637	-	27,742	29,379
Foreign currency translation	-	1,070	-	14,921	15,991
Balance as at September 30, 2013	-	25,037	-	357,626	382,663
Depreciation expense	-	5,576	32,488	26,926	64,990
Disposals	-	-	-	(16,934)	(16,934)
Foreign currency translation	-	2,180	-	29,318	31,498
Balance as at September 30, 2014	$ -	$ 32,793	$ 32,488	$ 396,936	$ 462,217
Net book value					
September 30, 2014	$ 141,700	$ 3,613,524	$ 15,111,748	$ 128,349	$ 18,995,321
September 30, 2013	-	-	-	61,897	61,897

(Expressed in Canadian dollars)

9. Intangible assets:

Cost		
Balance as at October 1, 2012	$	56,221
Acquired from business combination (note 5)		5,444,954
Foreign currency translation		2,693
Balance as at September 30, 2013		5,503,868
Foreign currency translation		5,129
Balance as at September 30, 2014	$	5,508,997
Accumulated amortization		
Balance as at October 1, 2012	$	48,898
Amortization expense		2,096
Foreign currency translation		2,372
Balance as at September 30, 2013		53,366
Amortization expense		1,363,282
Foreign currency translation		4,715
Balance as at September 30, 2014	$	1,421,363
Net book value		
September 30, 2014	$	4,087,634
September 30, 2013		5,450,502

Amortization expense in the amount of $1,363,282 (2013 - $2,096) has been included in Research and development expense.

10. Note payable:

The note payable is fully secured against the assets of the Company. It bears interest at a fixed rate of 4% per annum and is repayable in interest only with the principal due on September 16, 2017.

(Expressed in Canadian dollars)

11. 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 outstanding:

	Number of shares	Amount
Balance at October 1, 2012	28,615,533	$ 16,933,984
Business acquisition (note 5)	3,705,103	5,161,400
Private placement	5,210,500	4,129,912
Options exercised	1,225,000	184,584
Balance as at September 30, 2013	38,756,136	26,409,880
Shares issued on acquisition of non-controlling interest (note 5)	60,000	96,000
Business acquisition (note 6)	2,000,000	3,180,000
Contingent shares issued on the acquisition (note 5)	234,897	-
Private placements (note 6)	6,772,151	9,366,072
Options exercised	247,250	291,364
Warrants exercised	237,500	213,750
Balance as at September 30, 2014	48,307,934	$ 39,557,066

On August 20, 2013 and September 3, 2013 the Company completed two tranches of a private placement with several arm's length investors for total proceeds of $4,168,400 by the issuance of 5,210,500 subscription receipts convertible into equity units at $0.80 each. Each unit comprising a common share and one-half warrant exercisable for 18 months at $0.90. These units were converted to common shares and warrants on the completion of the acquisition of IDME and IDIT (note 5). Share issuance costs of $38,488 were incurred in relation to the private placement.

On September 12, 2014, the Company completed an initial tranche of a private placement for total proceeds of $9,277,429, by the issuance of 6,184,953 subscription receipts convertible into equity units concurrently with the closing of the acquisition of FOF on September 16, 2014. On September 18, 2014 the Company raised an additional $502,347, by the issuance 334,898 equity units, and on September 25, 2014 the Company completed the final tranche by raising $378,450, by the issuance of 252,300 equity units. Each equity unit converted into a common share and one-half warrant, with each whole warrant entitling the holder to purchase one common share of the Company at a price of $1.90 until September 12, 2015. The warrants are subject to accelerated expiry in the event that the common shares of Nanotech trade on the TSX Venture Exchange at $2.25 or more for a ten consecutive day period after the four month resale restricted period.

(Expressed in Canadian dollars)

11. Share capital (continued):

(a) Share capital (continued):

Share issuance costs of $792,154 and 259,350 work fee warrants were incurred in relation to the private placement. Each work fee warrant entitles the holder to purchase one work fee unit at a price of $1.50 per work fee unit at any time until the close of business on September 12, 2015. Each work fee unit consists of one common share and one-half of one common share purchase warrant of the Company with the same terms as the warrants included in the private placement.

(b) Stock option plan:

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

	Number of options	Weighted average exercise price
Balance, October 1, 2012	1,541,000	$ 0.24
Granted	690,000	0.80
Exercised	(1,225,000)	0.10
Forfeited	(46,000)	0.80
Balance, September 30, 2013	960,000	0.80
Granted	1,085,000	1.63
Exercised	(247,250)	0.80
Forfeited	(230,750)	0.80
Balance, September 30, 2014	1,567,000	$ 1.38

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

Options outstanding				Options exercisable	
Range of exercise prices Cdn$	Number of options outstanding	Weighted average remaining contractual life (yrs)	Weighted average exercise price	Number of options exercisable	Weighted average exercise price
$0.00 - $0.80	482,000	1.73	$ 0.80	482,000	$ 0.80
$0.81 - $1.75	1,085,000	4.34	1.62	262,500	1.62
	1,567,000	3.54	$ 1.38	744,500	$ 1.09

(Expressed in Canadian dollars)

11. Share capital (continued):

(b) Stock option plan (continued):

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. During the year ended September 30, 2014 compensation expense totaling $481,996 (2013 - $207,070) has been recorded in research and development, and general and administration expenses.

The weighted average assumptions used to estimate the fair value of options granted during the years ended September 30, 2014 and 2013 are as follows:

	2014	2013
Risk free interest rate	1.50%	1.02%
Expected life	4.07	3.00
Vesting period	1.5 years	2.0 years
Expected volatility	64%	70%
Expected dividends	nil	nil
Average fair value	$0.79	$0.37
Forfeiture rate	8.0%	Nil

(c) Warrants:

Warrants outstanding as at September 30, 2014 are as follows:

	Number of warrants	Weighted average exercise price
Balance, October 1, 2012	922,411	$ 1.25
Granted on private placement	2,605,250	0.90
Expired	(922,411)	1.25
Balance, September 30, 2013	2,605,250	0.90
Granted on private placement	3,386,076	1.90
Granted work fee warrants	259,350	1.50
Exercised	(237,500)	0.90
Balance, September 30, 2014	6,013,176	$ 1.49

12. Capital risk management:

The Company's objectives and policies for managing capital are to maintain a strong capital base so as to maintain investor, creditor and market confidence, sustain future development of the business and to safeguard the Company's ability to support the Company's normal operating requirements on an ongoing basis.

The capital of the Company consists of the items included in the consolidated balance sheets in the shareholders' equity section and the secured note payable. As at September 30, 2014 shareholders' equity was $22,027,680 (2013 - $9,014,089).

The Company manages its capital structure and makes changes based on economic conditions, risks that impact the consolidated operations and future significant capital investment opportunities. To manage the Company's capital requirements, the Company has in place a planning and budgeting process which helps determine the funds required to ensure the Company has the appropriate liquidity to meet its operating and growth objectives. The Company's officers are responsible for managing the Company's capital and do so through quarterly meetings and regular review of financial information. The Board of Directors is responsible for overseeing this process.

13. Financial instruments and risk exposures:

(a) Fair value measurement:

The Company's financial assets include cash and cash equivalents and accounts receivable. The Company's financial liabilities include accounts payable and accrued liabilities, and secured note payable.

Cash and cash equivalents and accounts receivable are classified as loans and receivables, measured at amortized cost using the effective interest rate method. Accounts payable and accrued liabilities, and secured note payable are classified as other financial liabilities, measured at amortized cost using the effective interest rate method. The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability.

Contingent share consideration is valued as at the balance sheet date based upon the share value as determined by the trading value on the TSX Venture Exchange.

The carrying value of the Company's financial assets and liabilities is considered to be a reasonable approximation of fair value due to their immediate or short term maturity, or their ability for liquidation at comparable amounts.

(b) Credit risk:

Credit risk is the risk of a financial loss if a customer or counterparty to a financial instrument fails to meet its obligations under a contract. This risk primarily arises from the Company's receivables from customers.

(Expressed in Canadian dollars)

13. Financial instruments and risk exposures (continued):

(b) Credit risk (continued):

The Company's exposure to credit risk is dependent upon the characteristics of each customer. Each customer is assessed for credit worthiness, using third party credit scores and through direct monitoring of their financial well-being on a continual basis. In some cases, where customers fail to meet the Company's credit worthiness benchmark, the Company may choose to transact with the customer on a prepayment basis.

The Company does not have credit insurance or other financial instruments to mitigate its credit risk as management has determined that the exposure is minimal due to the composition of its customer base.

The Company regularly reviews the collectability of its accounts receivable and establishes an allowance account for credit losses based on its best estimate of any potentially uncollectable accounts. As at September 30, 2014, the balance of the allowance account for credit losses was nil (2013 - nil).

Pursuant to their respective terms, accounts receivable was aged as follows as at September 30, 2014 and 2013:

	2014	2013
0 - 30 days	$ 435,363	$ 333,687
31 - 60 days	83,275	22,248
61 - 90 days	7,737	6,176
Greater than 90 days	35	-
Total accounts receivable	$ 526,410	$ 362,111

There is a possibility of increased customer credit risk due to the ongoing global recessionary trends. As at September 30, 2014, the Company's accounts receivable are made up of approximately 42% (2013 – 73%) government trade receivables and the balance of the outstanding accounts receivable are spread over a large number of customers.

The Company may also have credit risk relating to cash and cash equivalents, which it manages by dealing with large banks and investing in highly liquid investments. The Company's objective is to minimize its exposure to credit risk in order to prevent losses on financial assets by placing its investments in highly liquid instruments such as guaranteed investment funds. The Company's cash and cash equivalents carrying value as at September 30, 2014 totaled $3,964,645 (2013 - $4,155,811), and accounts receivables of $526,410 (2013 - $362,111), representing the maximum exposure to credit risk of these financial assets.

13. Financial instruments and risk exposures (continued):

(c) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.

The Company has in place a planning and budgeting process which helps determine the funds required to ensure the Company has the appropriate liquidity to meet its operating and growth objectives.

As at September 30, 2014, the Company had cash and cash equivalents of $3,964,645 (2013 - $4,155,811) and accounts receivable of $526,410 (2013 - $362,111) for a total of $4,491,055 (2013 - $4,517,922). The liquidity and maturity timing of these assets are adequate for the settlement of the short-term financial obligations.

(d) Currency risk:

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates.

The Company is exposed to currency risk as a result of components of cost being denominated in currencies other than the Canadian dollar, primarily the United States dollar. The Company holds cash and has liabilities (primarily accounts payable and accrued liabilities) in currencies other than the Canadian dollar, primarily the United States dollar. In addition, the Company also has United States dollar denominated accounts receivable that are subject to currency risk.

The Company manages currency risk by holding cash in foreign currencies to support forecasted foreign currency denominated liabilities and does not use derivative instruments to reduce its exposure to foreign currency risk.

(e) Interest rate risk:

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to the risk of changes in market interest rates relate primarily to the secured note payable. The Company does not enter into any interest rate swaps to mitigate interest rate risk.

(Expressed in Canadian dollars)

14. Income taxes:

(a) Income tax expense:

Income tax expense differs from the expected expense if the Canadian federal and provincial statutory income tax rates were applied to earnings from operations before income taxes. The principal factors causing these differences are shown below:

	2014	2013
Loss before income taxes	$ (4,275,557)	$ (2,049,317)
Statutory tax rate	26.00%	25.50%
Calculated tax payable	(1,111,645)	(522,600)
Effective tax rate change and other	(140,605)	(199,400)
Permanent differences	124,000	33,000
Change in unrecognized deferred tax assets	(2,764,200)	689,000
Income tax recovery	(3,892,450)	-
Current income tax expense (recovery)	-	-
Deferred income tax recovery	(3,892,450)	-
Income tax recovery	$ (3,892,450)	$ -

Deferred income tax recovery is a result of the application of the Company's previously unrecognized deferred tax assets subsequent to the amalgamation of IDME and IDIT and the acquisition of FOF.

(b) Deferred income tax assets and liabilities:

The Company did not recognize deferred tax assets for the following deductible temporary differences:

	2014	2013
Non capital loss carry forwards	$ 2,757,308	$ 10,727,451
Other temporary differences	-	2,923,922
Net capital loss carry forwards	1,192,692	1,216,078
Unrecognized deferred income tax assets	$ 3,950,000	$ 14,867,451

(Expressed in Canadian dollars)

14. Income taxes (continued):

(c) Loss carry forwards:

As at September 30, 2014, the Company has Canadian tax loss carry forwards of approximately $10,550,000 (2013 - $9,449,200). As at September 30, 2014, the Company has United States loss carry forwards of approximately $805,000 (2013 - $686,600). The Company's tax loss carryforwards will expire, if not utilized, commencing in 2027. The Company recognizes the benefit of tax losses only to the extent of anticipated future taxable income in the relevant jurisdiction.

15. Related party transactions:

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

		2014		2013
Salaries and employee benefits	$	431,369	$	200,040
Share based payments		156,383		-
	$	587,752	$	200,040

(b) Management fees totaling $381,500 (2013 - $245,800) charged by a company controlled by an officer and director of the Company, were included in salaries and benefits expense. As of September 30, 2014, amounts owing to this company included in accounts payable and accrued liabilities were $286,490 (2013 - $339,252).

(c) Legal and professional fees, disbursements and taxes totaling $446,695 (2013 - $106,676) were incurred with a law firm of which a director of the Company is a partner. As of September 30, 2014, amounts owing to this company included in accounts payable and accrued liabilities were $425,370 (2013 - $86,060).

(d) Laboratory rental, materials and fees totaling $nil (2013 - $480,000) 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.

(e) As of September 30, 2014, included in accounts payable and accrued liabilities were nil (2013 - $108,500) owing to a 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.

(Expressed in Canadian dollars)

16. Supplementary cash flow information:

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

	2014	2013
Accounts receivable	$ (76,326)	$ (34,381)
Inventory	(12,901)	(24,066)
Prepaid expenses and other assets	(166,813)	(3,320)
Accounts payable and accrued liabilities	(94,747)	525,997
Deferred revenue	25,000	-
	$ (325,787)	$ 464,230

(b) Interest and income taxes:

During the year ended September 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:

	2014	2013
Cash	$ 1,456,148	$ 4,154,592
Money market funds	8,497	1,219
Term deposit	2,500,000	-
	$ 3,964,645	$ 4,155,811

(Expressed in Canadian dollars)

17. Segmented information:

The Company's business operates primarily through two business segments – Security Features (Nanotech and FOF) and Surveillance (TTI). These operating segments are monitored by the Company's chief operating decision makers and strategic decisions are made on the basis of segment operating results.

Security Features provides light based recognition nanotechnology 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.

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.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies.

No customer represents in excess of 10% of total revenue in the years ended September 30, 2014 and 2013.

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

September 30, 2013	Security Features	Surveillance	Total
Total current assets	$ 4,191,743	$ 659,128	$ 4,850,871
Property, plant and equipment	23,396	38,501	61,897
Intangible assets	5,444,954	5,548	5,450,502
Goodwill	1,388,458	-	1,388,458
Total current liabilities	1,122,844	226,337	1,349,181
Total liabilities	2,511,302	226,337	2,737,639

(Expressed in Canadian dollars)

17. Segmented information (continued):

Year ended September 30, 2014	Security Features	Surveillance	Total
Revenue	$ 80,262	$ 2,149,232	$ 2,229,494
Cost of sales	41,684	1,435,748	1,477,432
Gross profit	38,578	713,484	752,062
Expenses	4,444,304	757,143	5,201,447
Other expenses (income)	(198,744)	24,916	(173,828)
Loss, before income taxes	(4,206,982)	(68,575)	(4,275,557)

Year ended September 30, 2013	Security features	Surveillance	Total
Revenue	$ 2,888	$ 1,807,171	$ 1,810,059
Cost of sales	153,328	1,228,070	1,381,398
Gross profit (loss)	(150,440)	579,101	428,661
Expenses	1,720,605	769,588	2,490,193
Other expenses (income)	(12,215)	-	(12,215)
Loss, before income taxes	(1,858,830)	(190,487)	(2,049,317)

(Expressed in Canadian dollars)

18. Nature of expenses:

Operating expenses are comprised of the following:

	2014	2013
Advertising and promotion	$ 41,774	$ 17,902
Depreciation and amortization	1,428,271	19,421
Investor and public relations	254,879	272,020
Legal and professional fees	712,803	227,867
Office and general	356,879	123,418
Laboratory rental, materials, and fees	118,566	527,986
Rent	75,359	50,553
Salaries and benefits	1,591,290	992,737
Share based compensation	481,996	207,070
Travel and entertainment	139,630	51,219
	$ 5,201,447	$ 2,490,193

19. Contingencies:

The Company is engaged in a certain employment termination claims that are currently pending. In cases where an unfavorable outcome is probable and a reliable estimate can be made, a provision for anticipated costs has been accrued. In determining the estimated exposure for pending lawsuits, the Company relies upon their understanding of the claim, including activities undertaken by the other party, as well as discussions with legal counsel. In the opinion of management, the lawsuit is without substantial merit and no provision has been made for it.

20. 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.

As at September 30, 2014, the Company is committed under operating leases, primarily related to office space, for the following minimum annual rentals:

2015	$ 143,750
2016	128,306
2017	51,701
	$ 323,757

21. Subsequent events:

Subsequent to the year end, the Company entered into an office lease commencing on May 1, 2015 for a 5 year term with annual rent and operating costs totaling approximately $195,000.