NANOPHASE TECHNOLOGIES CORPORATION

CONSOLIDATED BALANCE SHEETS

Operating leases, Right of Use 2,118,883 - Other assets, net 12,528 14,928 LIABILITIES AND STOCKHOLDERS' EQUITY Current liabilities: Line of credit, bank \$ 500,000 \$ - Line of credit, related party 223,871 832,277 Current portion of long-term debt, related party 500,000 - Current portion of capital lease obligations 218,345 218,203 Current portion of operating lease obligations 356,949 - Accounts payable 1,748,021 1,607,400 Current portion of deferred revenue 482,349 8,144 Accrued expenses 379,314 971,098 Total current liabilities 4,408,849 3,637,124 Long-term portion of capital lease obligations 287,660 506,000 Long-term portion of porating lease obligations 289,721 - Long-term portion of porating lease obligations 2,034,592 - Long-term portion of related party loan - 500,000 Long-term portion of deferred revenue 92,750 -		As of							
Cash \$ 1,193,994 \$ 1,345,492 Trade accounts receivable, less allowance for doubtful accounts of \$9,000 970,472 828,417 Inventories, net 2,553,620 2,242,228 Prepaid expenses and other current assets 266,587 273,233 Total current assets 4,984,673 4,689,372 Equipment and leasehold improvements, net 2,218,883 - Operating leases, Right of Use 2,118,883 - Other assets, net 12,528 14,928 Other assets, net 2,23,871 8,565,618 LIABILITIES AND STOCKHOLDERS' EQUITY Current biblities: Line of credit, bank \$ 500,000 \$ - Line of credit, related party 203,871 832,272 Current portion of long-term debt, related party 203,845 218,345 218,300 Current portion of operating lease obligations 218,345 218,345 218,345 Current portion of operating lease obligations 356,949 1,607,400 Accounts payable 1,748,021 1,607,400 Current portion of operatin	ASSETS		2019	December 31,					
Cash \$ 1,193,994 \$ 1,345,492 Trade accounts receivable, less allowance for doubtful accounts of \$9,000 970,472 828,417 Inventories, net 2,553,620 2,242,228 Prepaid expenses and other current assets 266,587 273,233 Total current assets 4,984,673 4,689,372 Equipment and leasehold improvements, net 2,218,883 - Operating leases, Right of Use 2,118,883 - Other assets, net 12,528 14,928 Other assets, net 2,23,871 8,565,618 LIABILITIES AND STOCKHOLDERS' EQUITY Current biblities: Line of credit, bank \$ 500,000 \$ - Line of credit, related party 203,871 832,272 Current portion of long-term debt, related party 203,845 218,345 218,300 Current portion of operating lease obligations 218,345 218,345 218,345 Current portion of operating lease obligations 356,949 1,607,400 Accounts payable 1,748,021 1,607,400 Current portion of operatin									
Trade accounts receivable, less allowance for doubtful accounts of \$9,000 on December 31, 2019 and 2018 respectively 970,472 828,417 Inventories, net 2,553,620 2,242,228 Prepaid expenses and other current assets 266,587 273,233 Total current assets 4,984,673 4,689,372 Equipment and leasehold improvements, net 2,255,158 1,864,881 Operating leases, Right of Use 21,8383 - Other assets, net 12,528 14,928 Equipment and leasehold improvements, net 2,255,158 1,864,881 Operating leases, Right of Use 21,8383 - Other assets, net 12,528 14,928 Equipment and leasehold improvements, net 2,337,1242 \$ 6,569,181 Inventing the stream of the contract of the stream of the str									
on December 31, 2019 and 2018 respectively 970,472 828,417 Inventories, net 2,553,620 2,242,228 Prepaid expenses and other current assets 266,587 273,233 Total current assets 4,984,673 4,689,372 Equipment and leasehold improvements, net 2,255,158 1,864,881 Operating leases, Right of Use 2,118,883 - Other assets, net 12,528 14,928 \$ 9,371,242 \$ 6,569,181 LIABILITIES AND STOCKHOLDERS' EQUITY Current liabilities Line of credit, related party 223,871 832,277 Current portion of long-term debt, related party 500,000 \$ - Current portion of capital lease obligations 218,345 218,203 Current portion of operating lease obligations 356,949 \$ 1,607,400 Accounts payable 1,748,021 1,607,400 Current portion of deferred revenue 482,349 8,144 Accrued expenses 379,314 971,090 Long-term portion of capital lease obligations 2,044,849 3,637,124		\$	1,193,994	\$	1,345,492				
Inventories, net			050 453		000 445				
Prepaid expenses and other current assets 266,587 273,233 Total current assets 4,984,673 4,689,373 Equipment and leasehold improvements, net 2,255,158 1,864,881 Operating leases, Right of Use 2,118,883 - Other assets, net 12,528 14,928 LIABILITIES AND STOCKHOLDERS' EQUITY Current liabilities Line of credit, bank \$ 500,000 \$ - Line of credit, related party 223,871 832,277 Current portion of long-term debt, related party 500,000 - Current portion of operating lease obligations 356,949 - Accounts payable 1,748,021 1,607,400 Current portion of deferred revenue 482,349 8,144 Accoude expenses 379,314 971,099 Total current liabilities 287,660 506,000 Long-term portion of capital lease obligations 287,660 506,000 Long-term portion of related party 829,721 - Long-term portion of related party loan - 500,000 <			·		*				
Total current assets									
Equipment and leasehold improvements, net 2,255,158 1,864,881 Operating leases, Right of Use 2,118,883 - Other assets, net 12,528 14,928 \$ 9,371,242 \$ 6,569,181 LIABILITIES AND STOCKHOLDERS' EQUITY Current liabilities: Line of credit, bank \$ 500,000 \$ - Line of credit, related party 223,871 832,277 Current portion of long-term debt, related party 500,000 \$ - Current portion of capital lease obligations 218,345 218,203 Current portion of operating lease obligations 356,949 \$ - Accounts payable 1,748,021 1,607,400 Current portion of deferred revenue 482,349 8,144 Accrued expenses 379,314 971,098 Total current liabilities 287,660 506,000 Long-term portion of capital lease obligations 2,034,592 - Long-term portion of related party loan - 500,000 Long-term portion of related party loan - 500,000 Long-term portion of r									
Operating leases, Right of Use 2,118,883 - Other assets, net 12,528 14,928 LIABILITIES AND STOCKHOLDERS' EQUITY Current liabilities: Line of credit, bank \$ 500,000 - Line of credit, related party 223,871 832,277 Current portion of long-term debt, related party 500,000 - Current portion of capital lease obligations 218,345 218,203 Current portion of operating lease obligations 356,949 - Accounts payable 1,748,021 1,607,406 Current portion of deferred revenue 482,349 8,144 Accrued expenses 379,314 971,098 Total current liabilities 287,660 506,000 Long-term portion of capital lease obligations 287,660 506,000 Long-term portion of porating lease obligations 289,721 - Long-term portion of porating lease obligations 2,034,592 - Long-term portion of deferred party 829,721 - Long-term portion of deferred revenue 92,750 -	Total current assets		4,984,673		4,689,372				
Other assets, net 12,528 14,926 LIABILITIES AND STOCKHOLDERS' EQUITY Current liabilities: Line of credit, bank \$ 500,000 \$ - Line of credit, related party 223,871 832,272 Current portion of long-term debt, related party 500,000 218,345 218,203 Current portion of capital lease obligations 356,949 218,345 218,203 Accounts payable 1,748,021 1,607,406 482,349 8,144 Current portion of deferred revenue 482,349 8,144 971,098 Accrued expenses 379,314 971,098 97,1098 97,314 971,098 Total current liabilities 4,408,849 3,637,122 - - 500,000 Long-term portion of capital lease obligations 287,660 506,000 506,000 - - - 500,000 - - - - 500,000 - - - - - - - - - - - - - - <td>Equipment and leasehold improvements, net</td> <td></td> <td>2,255,158</td> <td></td> <td>1,864,881</td>	Equipment and leasehold improvements, net		2,255,158		1,864,881				
LIABILITIES AND STOCKHOLDERS' EQUITY Current liabilities: Line of credit, bank \$ 500,000 \$ - Line of credit, related party 223,871 832,277 Current portion of long-term debt, related party 500,000 200,000 Current portion of capital lease obligations 218,345 218,203 Current portion of operating lease obligations 356,949 1,607,400 Accounts payable 1,748,021 1,607,400 Current portion of deferred revenue 482,349 8,144 Accrued expenses 379,314 971,098 Total current liabilities 287,660 506,000 Long-term portion of capital lease obligations 2,034,592 - Long-term convertible loan, related party 829,721 - Long-term portion of related party loan - 500,000 Long-term deferred rent - 343,867 Long-term portion of deferred revenue 92,750 - Asset retirement obligation 206,221 198,184 Total long-term liabilities 3,450,944 1,548,057 </td <td>Operating leases, Right of Use</td> <td></td> <td>2,118,883</td> <td></td> <td>-</td>	Operating leases, Right of Use		2,118,883		-				
LIABILITIES AND STOCKHOLDERS' EQUITY Current liabilities: \$ 500,000 \$ - Line of credit, related party 223,871 832,272 Current portion of long-term debt, related party 500,000 218,345 218,203 Current portion of capital lease obligations 356,949 356,949 356,949 367,400	Other assets, net		12,528		14,928				
Current liabilities: \$ 500,000 \$ - Line of credit, bank \$ 500,000 \$ - Line of credit, related party \$ 500,000 \$ - Current portion of long-term debt, related party \$ 500,000 \$ - Current portion of capital lease obligations \$ 218,345 \$ 218,203 Current portion of operating lease obligations \$ 356,949 \$ 1,607,400 Accounts payable \$ 1,748,021 \$ 1,607,400 Current portion of deferred revenue 482,349 \$ 8,144 Accrued expenses 379,314 971,098 Total current liabilities 4,408,849 3,637,122 Long-term portion of capital lease obligations 2,034,592 - Long-term portion of operating lease obligations 2,034,592 - Long-term convertible loan, related party 829,721 - Long-term portion of related party loan - 500,000 Long-term deferred rent - 343,867 Long-term portion of deferred revenue 92,750 - Asset retirement obligation 206,221 198,184 Tot		\$	9,371,242	\$	6,569,181				
Current liabilities: \$ 500,000 \$ - Line of credit, bank \$ 500,000 \$ - Line of credit, related party \$ 500,000 \$ - Current portion of long-term debt, related party \$ 500,000 \$ - Current portion of capital lease obligations \$ 218,345 \$ 218,203 Current portion of operating lease obligations \$ 356,949 \$ 1,607,400 Accounts payable \$ 1,748,021 \$ 1,607,400 Current portion of deferred revenue 482,349 \$ 8,144 Accrued expenses 379,314 971,098 Total current liabilities 4,408,849 3,637,122 Long-term portion of capital lease obligations 2,034,592 - Long-term portion of operating lease obligations 2,034,592 - Long-term convertible loan, related party 829,721 - Long-term portion of related party loan - 500,000 Long-term deferred rent - 343,867 Long-term portion of deferred revenue 92,750 - Asset retirement obligation 206,221 198,184 Tot	LIABILITIES AND STOCKHOLDERS' EQUITY								
Line of credit, related party 223,871 832,272 Current portion of long-term debt, related party 500,000 Current portion of capital lease obligations 218,345 218,203 Current portion of operating lease obligations 356,949 1,748,021 1,607,406 Accounts payable 1,748,021 1,607,406 8,145 Current portion of deferred revenue 482,349 8,145 Accrued expenses 379,314 971,098 Total current liabilities 4,408,849 3,637,124 Long-term portion of capital lease obligations 287,660 506,006 Long-term portion of operating lease obligations 2,034,592 - Long-term convertible loan, related party 829,721 - Long-term portion of related party loan - 500,000 Long-term deferred rent - 343,867 Long-term portion of deferred revenue 92,750 - Asset retirement obligation 206,221 198,184 Total long-term liabilities 3,450,944 1,548,057	-								
Current portion of long-term debt, related party 500,000 Current portion of capital lease obligations 218,345 218,203 Current portion of operating lease obligations 356,949 1,748,021 1,607,406 Accounts payable 1,748,021 1,607,406 2482,349 8,145 Current portion of deferred revenue 482,349 8,145 971,098 Accrued expenses 379,314 971,098 971,098 Total current liabilities 4,408,849 3,637,122 Long-term portion of capital lease obligations 287,660 506,006 Long-term portion of operating lease obligations 2,034,592 - Long-term convertible loan, related party 829,721 - Long-term portion of related party loan - 500,000 Long-term deferred rent - 343,867 Long-term portion of deferred revenue 92,750 - Asset retirement obligation 206,221 198,184 Total long-term liabilities 3,450,944 1,548,057	Line of credit, bank	\$	500,000	\$	-				
Current portion of long-term debt, related party 500,000 Current portion of capital lease obligations 218,345 218,203 Current portion of operating lease obligations 356,949 1,607,406 Accounts payable 1,748,021 1,607,406 Current portion of deferred revenue 482,349 8,145 Accrued expenses 379,314 971,098 Total current liabilities 4,408,849 3,637,122 Long-term portion of capital lease obligations 287,660 506,006 Long-term portion of operating lease obligations 2,034,592 - Long-term convertible loan, related party 829,721 - Long-term portion of related party loan - 500,000 Long-term portion of deferred rent - 500,000 Long-term portion of deferred revenue 92,750 - Asset retirement obligation 206,221 198,184 Total long-term liabilities 3,450,944 1,548,057	Line of credit, related party		223,871		832,272				
Current portion of capital lease obligations 218,345 218,203 Current portion of operating lease obligations 356,949 Accounts payable 1,748,021 1,607,406 Current portion of deferred revenue 482,349 8,145 Accrued expenses 379,314 971,098 Total current liabilities 4,408,849 3,637,124 Long-term portion of capital lease obligations 287,660 506,006 Long-term portion of operating lease obligations 2,034,592 - Long-term convertible loan, related party 829,721 - Long-term portion of related party loan - 500,000 Long-term deferred rent - 343,867 Long-term portion of deferred revenue 92,750 - Asset retirement obligation 206,221 198,184 Total long-term liabilities 3,450,944 1,548,057			500,000		- -				
Accounts payable 1,748,021 1,607,406 Current portion of deferred revenue 482,349 8,145 Accrued expenses 379,314 971,096 Total current liabilities 4,408,849 3,637,124 Long-term portion of capital lease obligations 287,660 506,006 Long-term portion of operating lease obligations 2,034,592 - Long-term convertible loan, related party 829,721 - Long-term portion of related party loan - 500,000 Long-term deferred rent - 343,867 Long-term portion of deferred revenue 92,750 - Asset retirement obligation 206,221 198,184 Total long-term liabilities 3,450,944 1,548,057	Current portion of capital lease obligations		218,345		218,203				
Current portion of deferred revenue 482,349 8,145 Accrued expenses 379,314 971,098 Total current liabilities 4,408,849 3,637,124 Long-term portion of capital lease obligations 287,660 506,006 Long-term portion of operating lease obligations 2,034,592 - Long-term convertible loan, related party 829,721 - Long-term portion of related party loan - 500,000 Long-term deferred rent - 343,867 Long-term portion of deferred revenue 92,750 - Asset retirement obligation 206,221 198,184 Total long-term liabilities 3,450,944 1,548,057	Current portion of operating lease obligations		356,949		_				
Accrued expenses 379,314 971,098 Total current liabilities 4,408,849 3,637,124 Long-term portion of capital lease obligations 287,660 506,006 Long-term portion of operating lease obligations 2,034,592 - Long-term convertible loan, related party 829,721 - Long-term portion of related party loan - 500,000 Long-term deferred rent - 343,867 Long-term portion of deferred revenue 92,750 - Asset retirement obligation 206,221 198,184 Total long-term liabilities 3,450,944 1,548,057	Accounts payable		1,748,021		1,607,406				
Total current liabilities 4,408,849 3,637,124 Long-term portion of capital lease obligations 287,660 506,006 Long-term portion of operating lease obligations 2,034,592 - Long-term convertible loan, related party 829,721 - Long-term portion of related party loan - 500,000 Long-term deferred rent - 343,867 Long-term portion of deferred revenue 92,750 - Asset retirement obligation 206,221 198,184 Total long-term liabilities 3,450,944 1,548,057	Current portion of deferred revenue		482,349		8,145				
Long-term portion of capital lease obligations287,660506,000Long-term portion of operating lease obligations2,034,592-Long-term convertible loan, related party829,721-Long-term portion of related party loan-500,000Long-term deferred rent-343,867Long-term portion of deferred revenue92,750-Asset retirement obligation206,221198,184Total long-term liabilities3,450,9441,548,057	Accrued expenses		379,314		971,098				
Long-term portion of operating lease obligations2,034,592-Long-term convertible loan, related party829,721-Long-term portion of related party loan-500,000Long-term deferred rent-343,867Long-term portion of deferred revenue92,750-Asset retirement obligation206,221198,184Total long-term liabilities3,450,9441,548,057	Total current liabilities		4,408,849		3,637,124				
Long-term portion of operating lease obligations2,034,592-Long-term convertible loan, related party829,721-Long-term portion of related party loan-500,000Long-term deferred rent-343,867Long-term portion of deferred revenue92,750-Asset retirement obligation206,221198,184Total long-term liabilities3,450,9441,548,057	Long-term portion of capital lease obligations		287.660		506,006				
Long-term convertible loan, related party 829,721 - Long-term portion of related party loan - 500,000 Long-term deferred rent - 343,867 Long-term portion of deferred revenue 92,750 - Asset retirement obligation 206,221 198,184 Total long-term liabilities 3,450,944 1,548,057					-				
Long-term portion of related party loan - 500,000 Long-term deferred rent - 343,867 Long-term portion of deferred revenue 92,750 - Asset retirement obligation 206,221 198,184 Total long-term liabilities 3,450,944 1,548,057					_				
Long-term deferred rent - 343,867 Long-term portion of deferred revenue 92,750 - Asset retirement obligation 206,221 198,184 Total long-term liabilities 3,450,944 1,548,057			-		500,000				
Long-term portion of deferred revenue92,750-Asset retirement obligation206,221198,184Total long-term liabilities3,450,9441,548,057			_		343,867				
Asset retirement obligation 206,221 198,184 Total long-term liabilities 3,450,944 1,548,057			92,750		-				
Total long-term liabilities 3,450,944 1,548,057			206,221		198,184				
Contingent liabilities			3,450,944		1,548,057				
	Contingent liabilites								
Stockholders' equity:									
Preferred stock, \$.01 par value, 24,088 shares authorized and									
no shares issued and outstanding			-		-				
Common stock, \$.01 par value, 55,000,000 shares authorized;	Common stock, \$.01 par value, 55,000,000 shares authorized;								
38,136,792 and 33,911,792 shares issued and outstanding on December 31, 2019									
			381,368		339,117				
					98,795,105				
		_			(97,750,222)				
	Total stockholders' equity				1,384,000				
\$ 9,371,242 \$ 6,569,181		\$	9,371,242	\$	6,569,181				

NANOPHASE TECHNOLOGIES CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three months ended December 31,				Years ended December 31,				
	 2019		2018		2019		2018		
Revenue:	 								
Product revenue, net	\$ 2,055,067	\$	3,138,245	\$	11,852,011	\$	14,039,681		
Other revenue	 335,706		18,407		656,764		152,850		
Net revenue	2,390,773		3,156,652		12,508,775		14,192,531		
Operating expense:									
Cost of revenue	2,053,674		2,738,511		9,893,117		10,902,561		
Gross profit	337,099		418,141		2,615,658		3,289,970		
Research and development expense	420,280		545,014		1,869,926		2,057,466		
Selling, general and administrative expense	 831,251		956,573		3,541,964		3,255,913		
Income/(Loss) from operations	 (914,432)		(1,083,446)		(2,796,232)		(2,023,409)		
Interest income	-		-		-		-		
Interest expense	(69,594)		(25,851)		(209,876)		(57,492)		
Other, net	-		-		-		-		
Income/(Loss) before provision for income taxes	(984,026)		(1,109,297)		(3,006,108)		(2,080,901)		
Provision for income taxes	 				-				
Net income/(loss)	\$ (984,026)	\$	(1,109,297)	\$	(3,006,108)	\$	(2,080,901)		
Net income/(loss) per share- basic and diluted	\$ (0.03)	\$	(0.03)	\$	(0.08)	\$	(0.06)		
Weighted average number of basic and diluted									
common shares outstanding	 38,136,792		33,911,792		36,596,372		33,871,815		

NANOPHASE TECHNOLOGIES CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS - EXPANDED SCHEDULE

(Unaudited)

	Three months ended December 31,			Yeard ended December 31,				
		2019	DC1 01	2018		2019	<i>DCI CI</i>	2018
Revenue:								2010
Product revenue, net	\$	2,055,067	\$	3,138,245	\$	11,852,011	\$	14,039,681
Other revenue		335,706		18,407		656,764		152,850
Net revenue		2,390,773		3,156,652		12,508,775		14,192,531
Operating expense:								
Cost of revenue detail:								
Depreciation		65,082		58,552		246,576		253,475
Non-Cash equity compensation		12,684		8,886		46,293		30,653
Other costs of revenue		1,975,908		2,671,073		9,600,248		10,618,433
Cost of revenue		2,053,674		2,738,511		9,893,117		10,902,561
Gross profit		337,099		418,141		2,615,658		3,289,970
Research and development expense detail:								
Depreciation		11,022		11,139		47,721		40,318
Non-Cash equity compensation		15,804		14,453		58,000		53,216
Other research and development expense		393,454		519,422		1,764,205		1,963,932
Research and development expense		420,280		545,014		1,869,926		2,057,466
Selling, general and administrative expense detail:								
Depreciation and amortization		2,473		12,479		18,421		27,786
Non-Cash equity compensation		34,408		34,750		137,822		120,492
Other selling, general and administrative expense		794,370		909,344		3,385,721		3,107,635
Selling, general and administrative expense		831,251		956,573		3,541,964		3,255,913
Income/(Loss) from operations		(914,432)		(1,083,446)		(2,796,232)		(2,023,409)
Interest income		-		-		-		-
Interest expense Other, net		(69,594)		(25,851)		(209,876)		(57,492)
Income/(Loss) before provision for income taxes		(984,026)		(1,109,297)		(3,006,108)		(2,080,901)
Provision for income taxes		-						-
Net income/(loss)	\$	(984,026)	\$	(1,109,297)	\$	(3,006,108)	\$	(2,080,901)
Non-GAAP Disclosure (see note regarding Non-GAAP disc	losures	<i>i</i>).						
Addback Interest, net		69,594		25,851		209,876		57,492
Addback Depreciation/Amortization		78,577		82,170		312,718		321,579
Addback Non-Cash Equity Compensation		62,896		58,089		242,115		204,361
Addback Other, net		-		-		-		-
Adjusted EBITDA	\$	(772,959)	\$	(943,187)	\$	(2,241,399)	\$	(1,497,469)