

**NANOPHASE TECHNOLOGIES CORPORATION**

**BALANCE SHEETS**

<b>ASSETS</b>	<b>March 31, 2017 (Unaudited)</b>	<b>December 31, 2016</b>
<b>Current assets:</b>		
Cash and cash equivalents	\$ 1,526,860	\$ 1,779,027
Trade accounts receivable, less allowance for doubtful accounts of \$5,000 on March 31, 2017 and on December 31, 2016	1,338,357	434,226
Other receivables, net	1,987	96
Inventories, net	739,961	771,975
Prepaid expenses and other current assets	<u>337,127</u>	<u>441,634</u>
Total current assets	3,944,292	3,426,958
Equipment and leasehold improvements, net	1,432,048	1,395,441
Other assets, net	<u>19,280</u>	<u>19,893</u>
	<u>\$ 5,395,620</u>	<u>\$ 4,842,292</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current liabilities:</b>		
Current portion of capital lease obligations	\$ 48,674	\$ 107,021
Accounts payable	936,196	669,025
Accrued expenses	<u>623,082</u>	<u>521,302</u>
Total current liabilities	<u>1,607,952</u>	<u>1,297,348</u>
Long-term portion of capital lease obligations	272,666	109,448
Long-term deferred rent	447,990	465,850
Asset retirement obligations	<u>179,913</u>	<u>178,378</u>
	<u>900,569</u>	<u>753,676</u>
<b>Stockholders' equity:</b>		
Preferred stock, \$.01 par value, 24,088 shares authorized and no shares issued and outstanding	-	-
Common stock, \$.01 par value, 42,000,000 shares authorized; 31,234,330 and 31,229,996 shares issued and outstanding on March 31, 2017 and December 31, 2016, respectively	312,343	312,300
Additional paid-in capital	97,408,715	97,359,324
Accumulated deficit	<u>(94,833,959)</u>	<u>(94,880,356)</u>
Total stockholders' equity	<u>2,887,099</u>	<u>2,791,268</u>
	<u>\$ 5,395,620</u>	<u>\$ 4,842,292</u>

**NANOPHASE TECHNOLOGIES CORPORATION**

**STATEMENTS OF OPERATIONS**

(Unaudited)

	<b>Three months ended</b>	
	<b>March 31,</b>	
	<b>2017</b>	<b>2016</b>
	<u>          </u>	<u>          </u>
<b>Revenue:</b>		
Product revenue	\$ 3,466,465	\$ 2,189,223
Other revenue	19,138	21,881
Total revenue	<u>3,485,603</u>	<u>2,211,104</u>
 <b>Operating expense:</b>		
Cost of revenue	<u>2,281,333</u>	<u>1,754,636</u>
Gross profit	1,204,270	456,468
 Research and development expense	383,699	301,598
Selling, general and administrative expense	<u>763,837</u>	<u>761,221</u>
Income/(loss) from operations	<u>56,734</u>	<u>(606,351)</u>
Interest income	-	-
Interest expense	(10,338)	(4,258)
Other, net	<u>-</u>	<u>7</u>
Income/(loss) before provision for income taxes	46,396	(610,602)
 Provision for income taxes	<u>-</u>	<u>-</u>
Net income/(loss)	<u>\$ 46,396</u>	<u>\$ (610,602)</u>
 Net income/(loss) per share-basic and diluted	<u>\$ -</u>	<u>\$ (0.02)</u>
 Weighted average number of basic and diluted common shares outstanding	<u>31,230,092</u>	<u>30,014,067</u>

**NANOPHASE TECHNOLOGIES CORPORATION**

**STATEMENTS OF OPERATIONS - EXPANDED SCHEDULE**

(Unaudited)

	<b>Three months ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
<b>Revenue:</b>		
Product revenue, net	\$ 3,466,465	\$ 2,189,223
Other revenue	19,138	21,881
Total revenue	<u>3,485,603</u>	<u>2,211,104</u>
<b>Operating expense:</b>		
<i>Cost of revenue detail:</i>		
Depreciation	71,792	142,923
Non-Cash equity compensation	6,126	5,993
Other costs of revenue	2,203,415	1,605,720
Cost of revenue	<u>2,281,333</u>	<u>1,754,636</u>
Gross profit	1,204,270	456,468
<i>Research and development expense detail:</i>		
Depreciation	18,259	28,555
Non-Cash equity compensation	11,894	9,331
Other research and development expense	353,546	263,712
Research and development expense	<u>383,699</u>	<u>301,598</u>
<i>Selling, general and administrative expense detail:</i>		
Depreciation and amortization	4,594	10,209
Non-Cash equity compensation	29,684	31,297
Other selling, general and administrative expense	729,559	719,715
Selling, general and administrative expense	<u>763,837</u>	<u>761,221</u>
Income/(loss) from operations	56,734	(606,351)
Interest income	-	-
Interest expense	(10,338)	(4,258)
Other, net	-	7
Income/(loss) before provision for income taxes	46,396	(610,602)
Provision for income taxes	-	-
Net income/(loss)	<u>\$ 46,396</u>	<u>\$ (610,602)</u>
<b>Non-GAAP Disclosure (see note regarding Non-GAAP disclosures):</b>		
Addback Interest, net	10,338	4,258
Addback Depreciation/Amortization	94,645	181,687
Addback Non-Cash Equity Compensation	47,704	46,621
Adjusted EBITDA	<u>\$ 199,083</u>	<u>\$ (378,036)</u>