

**NANOPHASE TECHNOLOGIES CORPORATION**

**BALANCE SHEETS**

<b>ASSETS</b>	<b>December 31, 2018 (Unaudited)</b>	<b>December 31, 2017</b>
<b>Current assets:</b>		
Cash and cash equivalents	\$ 1,345,492	\$ 1,955,073
Trade accounts receivable, less allowance for doubtful accounts of \$9,000 and \$5,000 on December 31, 2018 and December 31, 2017 respectively	828,417	1,114,702
Inventories, net	2,242,228	1,138,870
Prepaid expenses and other current assets	273,235	415,192
Total current assets	4,689,372	4,623,837
 Equipment and leasehold improvements, net	 1,864,881	 1,624,359
Other assets, net	14,928	17,410
	\$ 6,569,181	\$ 6,265,606
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current liabilities:</b>		
Line of credit, related party	832,272	-
Line of credit, bank	-	300,000
Current portion of capital lease obligations	218,203	142,912
Accounts payable	1,607,406	1,037,784
Accrued expenses	979,243	542,810
Total current liabilities	3,637,124	2,023,506
 Long-term portion of capital lease obligations	 506,006	 415,887
Long-term loan, related party	500,000	-
Long-term deferred rent	343,867	409,790
Asset retirement obligation	198,184	184,518
Total long-term liabilities	1,548,057	1,010,195
 <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; 33,847,793 and 31,229,996 shares issued and outstanding on December 31, 2018 and December 31, 2017, respectively	339,117	338,478
Additional paid-in capital	98,795,105	98,562,750
Accumulated deficit	(97,750,222)	(95,669,323)
Total stockholders' equity	1,384,000	3,231,905
	\$ 6,569,181	\$ 6,265,606

**NANOPHASE TECHNOLOGIES CORPORATION**

**STATEMENTS OF OPERATIONS**

(Unaudited)

	Three months ended December 31,		Twelve months ended December 31,	
	2018	2017	2018	2017
<b>Revenue:</b>				
Product revenue, net	\$ 3,138,245	\$ 2,604,088	\$ 14,039,681	\$ 12,128,936
Other revenue	18,407	14,715	152,850	342,019
Net revenue	<u>3,156,652</u>	<u>2,618,803</u>	<u>14,192,531</u>	<u>12,470,955</u>
<b>Operating expense:</b>				
Cost of revenue	2,738,511	1,757,983	10,902,561	8,620,453
Gross profit	<u>418,141</u>	<u>860,820</u>	<u>3,289,970</u>	<u>3,850,502</u>
Research and development expense	545,014	381,856	2,057,466	1,735,687
Selling, general and administrative expense	956,573	683,256	3,255,913	2,886,282
Income/(Loss) from operations	<u>(1,083,446)</u>	<u>(204,292)</u>	<u>(2,023,409)</u>	<u>(771,467)</u>
Interest income	-	-	-	-
Interest expense	(25,851)	(9,444)	(57,492)	(34,355)
Other, net	<u>-</u>	<u>(1,021)</u>	<u>-</u>	<u>16,855</u>
Income/(Loss) before provision for income taxes	<u>(1,109,297)</u>	<u>(214,757)</u>	<u>(2,080,901)</u>	<u>(788,967)</u>
Provision for income taxes	-	-	-	-
Net income/(loss)	<u>\$ (1,109,297)</u>	<u>\$ (214,757)</u>	<u>\$ (2,080,901)</u>	<u>\$ (788,967)</u>
Net income/(loss) per share- basic and diluted	<u>\$ (0.03)</u>	<u>\$ (0.01)</u>	<u>\$ (0.06)</u>	<u>\$ (0.03)</u>
Weighted average number of basic and diluted common shares outstanding	<u>33,911,792</u>	<u>33,515,211</u>	<u>33,871,815</u>	<u>31,335,956</u>

NANOPHASE TECHNOLOGIES CORPORATION

STATEMENTS OF OPERATIONS - EXPANDED SCHEDULE

(Unaudited)

	Three months ended December 31,		Twelve months ended December 31,	
	2018	2017	2018	2017
<b>Revenue:</b>				
Product revenue, net	\$ 3,138,245	\$ 2,604,088	\$ 14,039,681	\$ 12,128,936
Other revenue	18,407	14,715	152,850	342,019
Net revenue	<u>3,156,652</u>	<u>2,618,803</u>	<u>14,192,531</u>	<u>12,470,955</u>
<b>Operating expense:</b>				
<i>Cost of revenue detail:</i>				
Depreciation	58,552	67,881	253,475	279,286
Non-Cash equity compensation	8,886	6,194	30,653	24,279
Other costs of revenue	2,671,073	1,683,908	10,618,433	8,316,888
Cost of revenue	<u>2,738,511</u>	<u>1,757,983</u>	<u>10,902,561</u>	<u>8,620,453</u>
Gross profit	418,141	860,820	3,289,970	3,850,502
<i>Research and development expense detail:</i>				
Depreciation	11,139	8,767	40,318	46,748
Non-Cash equity compensation	14,453	11,077	53,216	47,343
Other research and development expense	519,422	362,012	1,963,932	1,641,596
Research and development expense	<u>545,014</u>	<u>381,856</u>	<u>2,057,466</u>	<u>1,735,687</u>
<i>Selling, general and administrative expense detail:</i>				
Depreciation and amortization	12,479	5,126	27,786	18,114
Non-Cash equity compensation	34,750	25,842	120,492	111,041
Other selling, general and administrative expense	909,344	652,288	3,107,635	2,757,127
Selling, general and administrative expense	<u>956,573</u>	<u>683,256</u>	<u>3,255,913</u>	<u>2,886,282</u>
Income/(Loss) from operations	(1,083,446)	(204,292)	(2,023,409)	(771,467)
Interest income	-	-	-	-
Interest expense	(25,851)	(9,444)	(57,492)	(34,355)
Other, net	-	(1,021)	-	16,855
Income/(Loss) before provision for income taxes	<u>(1,109,297)</u>	<u>(214,757)</u>	<u>(2,080,901)</u>	<u>(788,967)</u>
Provision for income taxes	-	-	-	-
Net income/(loss)	<u>\$ (1,109,297)</u>	<u>\$ (214,757)</u>	<u>\$ (2,080,901)</u>	<u>\$ (788,967)</u>
<b>Non-GAAP Disclosure (see note regarding Non-GAAP disclosures):</b>				
Addback Interest, net	25,851	9,444	57,492	34,355
Addback Depreciation/Amortization	82,170	81,774	321,579	344,148
Addback Non-Cash Equity Compensation	58,089	43,113	204,361	182,663
Addback Other, net	-	1,021	-	(16,855)
Adjusted EBITDA	<u>\$ (943,187)</u>	<u>\$ (79,405)</u>	<u>\$ (1,497,469)</u>	<u>\$ (244,656)</u>