CERTIFICATION

I, Stuart Burchill, Chief Executive Officer of Industrial Nanotech, Inc. hereby ceritify that the financial statements filed herewith and any notes thereto, fairly present, in all material respects, the financial position, results of operations and cash flows for the periods accounting presented, in conformity with principles generally accepted in the United States, consistently applied.



Stuart Burchill

# Industrial Nanotech, Inc.

Consolidated Financial Statements
For the Quarters Ended September 30, 2015 and 2014
(Unaudited)

# Exhibits Index

**Exhibits, Financial Statement Schedules**

**(1) Consolidated Financial Statements**

Consolidated Balance Sheet as of September 30, 2015 and September 30, 2014

Consolidated Statements of Operations for the Quarters ended September 30, 2015 and 2014, and Year ended December 31, 2014

Consolidated Statements of Stockholders' Deficit for the Quarter ended September 30, 2015 and Year ended December 31, 2014

Consolidated Statements of Cash Flows for the Quarters ended September 30, 2015 and 2014 and Year ended December 31, 2014

Notes to the Consolidated Financial Statements

**Industrial Nanotech, Inc.**
Consolidated Balance Sheets

| | September 30, 2015 | December 31, 2014 |
|---|---|---|
| ASSETS | | |
| Current Assets | | |
| Cash | 0 | 23874 |
| Accounts Receivable | 29,475 | 4,854 |
| Other Current Assets | 119,104 | 254,001 |
| Total Current Assets | 148,579 | 282,729 |
| Property and Equipment, Net | 28,361 | 27,657 |
| Total Assets | $176,940 | $310,386 |
| LIABILITIES AND STOCKHOLDERS' DEFICIT | | |
| Current Liabilities | | |
| Bank Overdraft | 1,529 | |
| Accounts Payable | 266,624 | 227,301 |
| Accrued Expense | 249,818 | 140,395 |
| Customer Deposits | 207,243 | 449,887 |
| Notes Payable, net of discount | 241,864 | 343,364 |
| Notes Payable - Related Party | 883,094 | 981,480 |
| Total Current Liabilities | 1,850,172 | 2,142,427 |
| Total Liabilities | 1,850,172 | 2,142,427 |
| Commitments and Contingencies (Note 10) | | |
| Stockholders' Deficit | | |
| Preferred Stock, par value $0.0001, 25,000,000 shares authorized, 5,000,000 issued and outstanding | 500 | 500 |
| Common Stock, par value $0.0001, 1,500,000,000 shares authorized, 1,126,143,608 and 830,075,728 shares | 129,198 | 102,225 |
| Paid In Capital | 15,200,790 | 13,444,912 |
| Accumulated Deficit | (17,003,720) | (15,379,678) |
| Total Stockholder' Deficit | (1,673,232) | (1,832,041) |
| Total Liabilities and Stockholders' Deficit | $176,940 | $310,386 |

See accompanying notes to the Consolidated Financial Statements

# Industrial Nanotech, Inc.

Consolidated Statements of Operations

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| INCOME | | | | |
| Revenue | 58,761 | 124,318 | 248,389 | 275,363 |
| Less: Cost of Goods Sold | 15,290 | 40,248 | 79,902 | 91,225 |
| Gross Profit | 43,471 | 84,070 | 168,487 | 184,138 |
| OPERATING EXPENSES | | | | |
| Professional and Consulting | 552,538 | 85,867 | 787,358 | 388,100 |
| Payroll Expenses | 102,955 | 69,027 | 281,171 | 223,018 |
| General and Administrative | 92,138 | 14,554 | 238,202 | 301,783 |
| Research and Development | 5,887 | 9,341 | 52,826 | 45,572 |
| Sales and Marketing | 14,912 | 17,495 | 32,874 | 71,194 |
| Total Expenses | 768,430 | 196,284 | 1,392,431 | 1,029,667 |
| Loss from Operations | (724,959) | (112,214) | (1,223,944) | (845,529) |
| Interest Expense | 132,061 | 237,839 | 14,704 | 487,261 |
| Loss on Extinguishment of Debt | 55,191 | 92,794 | 616,389 | 92,794 |
| Net Loss | (912,211) | (442,847) | (1,855,037) | (1,425,584) |
| Basic and Diluted | | | | |
| Loss per Common Share | ($0.0001) | ($0.0001) | ($0.0001) | ($0.0001) |
| Number of Weighted Average | | | | |
| Common Shares Outstanding | 1,168,233,494 | 844,724,021 | 2,244,124,177 | 1,659,761,904 |

See accompanying notes to the Consolidated Financial Statements

**Industrial Nanotech, Inc.**

Consolidated Statements of Stockholders' Deficit

| | Shares | Amount | Shares | Amount | Capital | Deficit | Equity |
|---|---|---|---|---|---|---|---|
| **Balance December 31, 2013** | **5,000,000** | **500** | **796,875,728** | **79,688** | **11,135,886** | **(12,809,571)** | **(1,593,497)** |
| Common Shares Issued for Cash | | | 39,650,000 | 3,965 | 56,835 | | 60,800 |
| Common Shares Issued for Services | | | 47,364,563 | 4,736 | 672,922 | | 677,658 |
| Common Shares Issued for Employee Bonus | | | 90,000,000 | 9,000 | 873,000 | | 882,000 |
| Common Shares Issued for Interest Expense | | | 48,357,666 | 4,836 | 706,269 | | 711,105 |
| Net Income/(Loss) | | | | | | (2,570,107) | (2,570,107) |
| **Balance December 31, 2014** | **5,000,000** | **500** | **1,022,247,957** | **102,225** | **13,444,912** | **(15,379,678)** | **(1,832,041)** |
| Common Shares Issued for Cash | | | 79,192,856 | 7,919 | 249,280 | | 257,199 |
| Common Shares Issued for Services | | | 74,782,120 | 7,428 | 575,776 | | 583,204 |
| Common Shares Issued for Interest Expense | | | 118,753,543 | 11,625 | 930,822 | | 942,447 |
| Common Shares Issued for Prepaid Services | | | | | | 230,995 | 230,995 |
| Net Income/(Loss) | | | | | | (1,855,037) | (1,855,037) |
| **BalanceSeptember 30, 2015** | **5,000,000** | **500** | **1,294,976,476** | **129,197** | **15,200,790** | **(17,003,720)** | **(1,673,233)** |

See accompanying notes to the Consolidated Financial Statements

# Industrial Nanotech, Inc.

Consolidated Statements of Cash Flows

Fort the Quarters Ended and Year Ended

| | September | | December 31, |
|---|---|---|---|
| | 2015 | 2014 | 2014 |
| **Cash flows from Operating Activities:** | | | |
| Net Loss | (565,880) | (982,737) | (2,570,107) |
| Adjusments to Reconcile Net Loss | | | |
| Stock Issued for Services | 35,014 | 208,750 | 677,658 |
| Stock Issued for Employee Bonuses | 0 | 5,250 | 882,000 |
| Stock Issued for Interest | 18,759 | 237,000 | 39,681 |
| Loss from Extinguishment of Debt | 439,098 | | 283,743 |
| Amortization of Notes Payable Discount | | | 204,677 |
| Depreciation | - | - | 10,001 |
| Loss on Disposal of Property and Equipment | - | - | - |
| Changes in Operating Assets and Liabilities: | | | |
| Accounts Receivable | 1,926 | 7,309 | 1,463 |
| Other Current Assets | 20 | (19,251) | (98,392) |
| Accounts Payable | (8,006) | (10,485) | 33,954 |
| Accrued Expense | 4,329 | 177,240 | (74,628) |
| Customer Deposits | (223,556) | 358,449 | 420,839 |
| Net Cash Used by Operating Activities | (298,296) | (18,475) | (189,311) |
| **Cash flows from Investing Activities** | | | |
| Purchase of Property and Equipment | 8,713 | 933 | (4,205) |
| Net Cash Used by Investing Activities | 8,713 | 933 | (4,205) |
| **Cash flows from Financing Activities** | | | |
| Proceeds from issuance of Common Stock | 39,000 | 255,803 | 60,800 |
| Net Activity from Note Payable-Related Party | (26,832) | (311,810) | (65,353) |
| Proceeds from Notes Payable | 303,250 | 160,550 | 240,050 |
| Payments on Notes Payable | (1,961) | (40,581) | (64,500) |
| Net Cash Provided by Financing Activities | 313,457 | 63,962 | 170,997 |
| Net Increase (Decrease) in Cash | 23,874 | 46,420 | (22,519) |
| Cash, Beginning of Period | 23,874 | 46,420 | 46,393 |
| Cash,End of Period | 0 | 0 | 23,874 |

See accompanying notes to the Consolidated Financial Statements

# Industrial Nanotech, Inc.

Notes to Consolidated Financial Statements

September 30, 2015 and 2014

## Note 1. General Organization and Business

Industrial Nanotech, Inc. (the "Company") is a Delaware corporation organized on February 7, 2005. On March 14, 2005, the Company acquired a corporation with the same name organized in Wyoming on January 14, 2004. The Delaware corporation is the surviving legal entity with the Wyoming corporation being the historical accounting entity for reporting purposes. Both companies were organized by the same founders, therefore there was no change of control. The Wyoming corporation is operated as a wholly owned subsidiary.

On June 28, 2005, the Company organized a Florida corporation of the same name to provide management services to the Company and is also operated as a wholly owned subsidiary.

The Company develops, manufactures and markets industrial grade insulation products utilizing emerging nanotechnology. The Company currently owns patent rights to the combination of a specific category of nanocomposites and a variety of secondary "carrier" components used in these products. The Company is an active participant in research and development with leading laboratories exploring nanotechnology.

## Note 2. Summary of Significant Accounting Policies

Basis of Presentation

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") on the accrual basis of accounting.

Basis of Consolidation

The consolidated fianancial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Earnings (Loss) per Share

The basic earnings (loss) per share is calculated by dividing the Company's net (loss) available to common shareholders by the weighted average number of common shares during the year. The diluted earnings (loss) per share are calculated by dividing the Company's net income (loss) available to common shareholders by the diluted weighted average number of shares outstanding during the year. The diluted weighted average number of shares outstanding is the basic weighted average number of shares adjusted as of the first of the year for any potentially dilutive debt or equity. Basic and diluted losses per share were the same at the reporting dates as there were no common stock equivalents outstanding at September 30, 2015 and 2014.

Use of Estimates

The preparation of financial statements in conformity with GAAP 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Company considers cash on hand, cash in banks and other highly liquid instruments purchased with an original maturity date of three months or less to be cash equivalents.

Property and Equipment

Property and Equipment is stated at cost less accumulated depreciation. The Company capitalizes all additions and improvements with a cost greater than $500. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, ranging from five to seven years. Maintenance and repairs are charged to expense as incurred. Property and equipment consists of the following:

| | September 30, 2015 | September 30, 2014 |
|---|---|---|
| Computer Equipment | $ 41,897 | $ 40,490 |
| Equipment | 16,195 | 16,194 |
| Furniture and Fixtures | 6,527 | 6,527 |
| Less: Accumulated Depreciation | (36,259) | (25,554) |
| Property and Equipment, net | $ 28,360 | $ 37,657 |

Revenue Recognition

The Company recognizes revenue when a sale is made and the product is shipped. The Company receives payment for orders that have not yet met the revenue recognition criteria. These payments are recorded as customer deposits within current liabilities until the revenue is earned.

Accounts receivable consist of amounts due from customers which arise in the normal course of business. Management determines the allowance for doubtful accounts based on historical losses and current economic conditions. On a continuing basis, management analyzes delinquent receivables, and once those receivables are determined to be uncollectible, they are written off against an existing allowance account. As of September 30, 2015 and 2014, the Company has determined that an allowance for doubtful accounts is not necessary.

Advertising

The Company expenses advertising costs as they are incurred. Advertising costs for the six months ended September 30, 2015 and 2014 was approximately $1,000 and $25,000, respectively.

Shipping and Handling Fees

All amounts billed to a customer in a sales transaction related to shipping and handling represent revenues and are reported as revenues in the consolidated statements of operations. Costs incurred by the Company for shipping and handling are reported within costs of revenues in the consolidated statements of operations.

Income Tax

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Additionally, the recognition of future tax benefits, such as net operating loss carry forwards, is required to the extent that realization of such benefits is more likely than not. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which the assets and liabilities are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income tax expense in the period that includes the enactment date.

In the event the future tax consequences of differences between the financial reporting bases and the tax bases of the Company's assets and liabilities result in deferred tax assets. Periodic reviews of the carrying amount of deferred tax assets are made to determine if the establishment of a valuation analysis is necessary. A valuation allowance is provided for the portion of the deferred tax asset when it is more likely than not that some or all of the deferred tax asset will not be realized. Management considers the scheduled reversals of deferred tax liabilities, projected future taxable income, and tax planning strategies when making this determination.

The Company's income tax returns are subject to examination by tax authorities. Generally, the statute of limitations related to the Company's federal and state income tax return is three years from the date of filing. The state impact of any federal changes for prior years remains subject to examination for a period up to five years after formal notification to the states.

Management has evaluated tax positions in accordance with Financial Accounting Standards Board Accounting Standards Codification ("FASB ASC") 740, *Income Taxes,* and has not identified any significant tax positions.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to a significant concentration of credit risk include cash, accounts receivable, revenue and vendor concentrations. At times, the Company may maintain deposits in federally insured financial institutions in excess of federally insured limits. Management monitors the credit rating and concentration of risk with these fiinancial institutions on a continuing basis to mitigate risk.

As of September 30, 2015 and 2014, two and one customers accounted for 98% and 95% of accounts receivable, respectively. During the periods ended September 30, 2015 and 2014, three and four customers accounted for 49% and 60% of total revenues, respectively.

As of September 30, 2015 and 2014, five vendors accounted for 79% and 63% of accounts payable, respectively. During the period ended September 30, 2015 and 2014, one vendor accounted for 99% and 99% of total cost of revenues, respectively.

Fair Value of Financial Instruments

FASB ASC 820, *Fair Value Measurements and Disclosures*, establishes a framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets and liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described below.

Level 1 Valuations based on unadjusted quoted market prices in active markets for identical assets and liabilities.

Level 2 Valuations based on observable inputs (other than Level 1), such as quoted prices for similar assets at the measurement date; quoted prices in markets that are not active; or other inputs that are observable, either directly or indirectly.

Level 3 Valuations based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value measurement.

Recent Accounting Pronouncements

The Company has implemented all new accounting standards and does not believe there are any other new accounting pronouncements that have been issued that may have a material impact on the consolidated financial statements.

Subsequent Events

In accordance with FASB ASC 855, *Subsequent Events*, the Company evaluated subsequent events through the date of this report, which was the date the consolidated financial statements were available for issue.

## Note 3. Going Concern

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern, which contemplates the realization of assets and the liquidation of liabilities in the normal course of business. The Company's financial position and operating results raise substantial doubt about the Company's ability to continue as a going concern, as reflected by the net losses of $1,855,037 accumulated through September 30, 2015. The consolidated financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

Management is presently creating new technologies and is pursuing the acquisition of additional intellectual property in nanotechnology. The overall objective is to develop a nanocomposite manufacturing and research facility and expansion of distribution networks worldwide.The Company must continue to raise funds to support the growth of product development. Management has been successful in the past in raising these funds; however, failure to do so would cause the Company to further increase its negative working capital deficit and could result in the Company having to curtail or cease operations. Additionally, even if the Company does raise sufficient funds and create new technologies, there can be no assurance that the revenue will be sufficient to enable the Company to develop business to a level where it will generate profits and cash flows from operations.

## Note 4. Note Payable - Related Party

In March 2005, the Company entered into a convertible promissory note with a related party. The note has no stated amount and accrues interest compounded monthly at 10% per annum. The principal and interest are due on demand. The note may be converted into common stock at a conversion rate to be negotiated at the time of conversion. The conversion rate shall not be less than a 50% discount to the previous 10 day average closing price.

As of September 30, 2015 and 2014, the related party note payable totaled $883,094 and $940,325, respectively. Of the total amount outstanding, approximately $590,000 and $504,000 related to accrued interest as of September 30, 2015 and 2014, respectively.

## Note 5. Notes Payable

As of September 30, 2015 and 2014, the Company has notes payable to five and seven individuals, respectively. The notes bear interest ranging from 8% to 18% and have total principal balances ranging from $10,000 to $190,000. The notes have maturity dates ranging from May 2013 through December 2015, at which time all principal and accrued interest was due. As of September 30, 2015 and 2014, there were unamortized discounts on one note payable of $0 and $0, respectively.

During 2015, the Company settled 3 notes and converted the the outstanding principal and accrued interest to common stock. The notes were converted into 95,177,817 shares of common stock for a total value of $439,098. The total amount of principal converted was approximately $405,811 and the Company recognized a loss on extinguishment of debt of $439,098.

As of September 30, 2015, all notes were in default and are classified as a current liability on the consolidated balance sheets (see Note 11).

## Note 6. Stockholders' Deficit

Upon formation, the Company authorized 250,000,000 shares of common stock having a par value of $0.0001 per share and 25,000,000 shares of preferred stock having a par value of $0.0001 per share. Of the 25,000,000 shares of preferred stock, 5,000,000 shares are designated as Series A. On November 17, 2014 the Company filed its fourth amendment to the articles of incorporation and increased the authorized shares of common stock to 1,500,000,000.

The holders of Series A preferred stock ("Series A") are entitled to 1,000 votes per share and the holders of common stock are entitled to one vote. Series A holders are entitled to receive quarterly dividends payable in cash if dividends are declared on common stock. Series A dividends shall be $0.10 per share of 1,000 times the aggregate declared dividend per common share. As of September 30, 2015 and 2014, there were no dividends declared.

In case of voluntary or involuntary liquidation or dissolution of the Company, subject to assets being available, holders of Series A will receive $1,000 per share plus accrued dividends. Once liquidation of Series A is complete, holders of common stock will receive $1.00 per share and all remaining available assets shall be distributed proportionally by number of shares outstanding.