

CERTIFICATION

I, Stuart Burchill, CEO of Industrial Nanotech, Inc. hereby certify 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 presented, in conformity with accounting principles generally accepted in the United States, consistently applied.

A handwritten signature in black ink, appearing to read 'Stuart Burchill', written over a horizontal line.

Stuart Burchill

Industrial Nanotech, Inc.

Balance Sheets

(Unaudited)

| | <u>December 31,</u> 2009 | <u>December 31,</u> 2008 |
|--|-----------------------------|-----------------------------|
| <u>ASSETS</u> | | |
| Current Assets | | |
| Cash | \$ - | \$ - |
| Accounts Receivable | 305,794 | 324,206 |
| Employee Loan | 1,010 | 6,083 |
| Inventory | <u>42,269</u> | <u>44,973</u> |
| Total Current Assets | <u>349,073</u> | <u>375,262</u> |
| Equipment, net | <u>29,747</u> | <u>31,141</u> |
| Other Assets | <u>6,190</u> | <u>7,790</u> |
| Total Assets | <u><u>\$ 385,010</u></u> | <u><u>\$ 414,193</u></u> |
| <u>LIABILITIES AND STOCKHOLDERS' EQUITY</u> | | |
| Current Liabilities | | |
| Accounts Payable | \$ 155,840 | \$ 362,805 |
| Accrued Payroll | 1,786,702 | 1,482,500 |
| Accrued Expense | 113,772 | 58,728 |
| Notes Payable - Related Party | <u>945,861</u> | <u>608,712</u> |
| Total Current Liabilities | <u>3,002,175</u> | <u>2,512,745</u> |
| Long Term Notes Payable | <u>-</u> | <u>-</u> |
| Total Liabilities | <u>3,002,175</u> | <u>2,512,745</u> |
| Stockholders' Equity | | |
| Common Stock, authorized 250,000,000 shares, par value \$0.0001, issued and outstanding on December 31, 2009 and December 31, 2008 is 221,425,355 and 179,506,813 respectively | 22,143 | 17,951 |
| Paid in Capital | 9,324,861 | 8,549,364 |
| Subscriptions Receivable | (803,667) | (803,667) |
| Accumulated Deficit | <u>(11,160,502)</u> | <u>(9,862,200)</u> |
| Total Stockholders' Equity | <u>(2,617,165)</u> | <u>(2,098,552)</u> |
| Total Liabilities and Stockholders' Equity | <u><u>\$ 385,010</u></u> | <u><u>\$ 414,193</u></u> |

The accompanying notes are an integral part of these statements

Industrial Nanotech, Inc.

Statements of Operations

(Unaudited)

| | Year Ended December 31 | |
|---|---------------------------|-----------------------|
| | <u>2009</u> | <u>2008</u> |
| Income | | |
| Revenue | \$ 771,121 | \$ 1,424,036 |
| Less: Cost of Goods Sold | <u>193,446</u> | <u>538,735</u> |
| Gross Profit | 577,675 | 885,301 |
| Expenses | | |
| Sales and Marketing | 346,716 | 151,606 |
| General and Administrative | 1,246,012 | 973,320 |
| Research and Development | 86,327 | 244,878 |
| Professional and Consulting | 105,438 | 1,764,468 |
| Depreciation | 1,404 | 1,404 |
| Interest | <u>90,080</u> | <u>14,413</u> |
| Total Expenses | <u>1,875,977</u> | <u>3,150,089</u> |
| Income /(Loss) before Provision for Income Taxes | <u>(1,298,302)</u> | <u>(2,264,788)</u> |
| Provision for Income Taxes | <u>-</u> | <u>-</u> |
| Net Income/(Loss) | <u>\$ (1,298,302)</u> | <u>\$ (2,264,788)</u> |
| Basic and Diluted (Loss) per Share | <u>\$ (0.01)</u> | <u>\$ (0.01)</u> |
| Weighted Average Number of Shares | <u>208,214,484</u> | <u>171,508,422</u> |

The accompanying notes are an integral part of these notes

Industrial Nanotech, Inc.

Statement of Stockholders' Equity

(Unaudited)

(Inception January 14, 2004 to December 31, 2009)

| | Common Stock | | Paid in Capital | Subscriptions Receivable | Prepaid Expense - Stock Related | Accumulated Deficit | Total Equity |
|--|--------------------|------------------|---------------------|-----------------------------|---------------------------------------|------------------------|-----------------------|
| | Shares | Amount | | | | | |
| Balance, December 31, 2006 | 161,992,692 | \$ 16,200 | \$ 6,961,988 | \$ (498,667) | \$ (2,976,865) | \$ (4,241,171) | \$ (738,515) |
| Common Shares issued for Cash | 1,807,692 | 181 | 169,819 | | | | 170,000 |
| Common Shares issued for Service | 1,875,000 | 188 | 154,062 | | | | 154,250 |
| Amortization of Prepaid Expenses - Stock Related | | | | | 2,138,892 | | 2,138,892 |
| Net Income/(Loss) | | | | | | (3,356,241) | (3,356,241) |
| Balance, December 31, 2007 | 165,675,384 | 16,569 | 7,285,869 | (498,667) | (837,973) | (7,597,412) | (1,631,614) |
| Common Shares issued for Cash and Subscription Receivable | 7,500,000 | 750 | 749,250 | (305,000) | | | 445,000 |
| Common Shares issued for Service | 6,231,429 | 622 | 508,255 | | | | 508,877 |
| Amortization of Prepaid Expenses - Stock Related | | | | | 837,973 | | 837,973 |
| Common Shares issued for Employee Bonus | 100,000 | 10 | 5,990 | | | | 6,000 |
| Net Income/(Loss) | | | | | | (2,264,788) | (2,264,788) |
| Balance, December 31, 2008 | 179,506,813 | 17,951 | 8,549,364 | (803,667) | - | (9,862,200) | (2,098,552) |
| Common Shares issued for Cash | 7,435,791 | 744 | 149,256 | | | | 150,000 |
| Common Shares issued for Service | 33,732,731 | 3,373 | 603,816 | | | | 607,189 |
| Common Shares issued for Service | 550,000 | 55 | 16,445 | | | | 16,500 |
| Common Shares issued for Service | 200,000 | 20 | 5,980 | | | | |
| Net Income/(Loss) | | | | | | (1,298,302) | (1,298,302) |
| Balance, December 31, 2009 | <u>221,425,335</u> | <u>\$ 22,143</u> | <u>\$ 9,324,861</u> | <u>\$ (803,667)</u> | <u>\$ -</u> | <u>\$ (11,160,502)</u> | <u>\$ (2,623,165)</u> |

The accompanying notes are an integral part of these statements

Industrial Nanotech, Inc.

Statements of Cash Flows (Unaudited)

| | Year Ended December 31 | |
|---|---------------------------|----------------|
| | 2009 | 2008 |
| Operating Activities | | |
| Net Income/(Loss) | \$ (1,298,302) | \$ (2,264,788) |
| Adjustments to reconcile Net Income/(Loss): | | |
| Stock issued for services | 629,689 | 514,877 |
| Depreciation | 1,394 | 1,404 |
| Balance Sheet Adjustments: | | |
| (Increase)/Decrease in Accounts Receivable | 18,412 | (321,902) |
| (Increase)/Decrease in Inventory | 2,704 | (16,154) |
| (Increase)/Decrease in Employee Loan | 5,073 | (4,783) |
| (Increase)/Decrease in Other Assets | 1,600 | (1,685) |
| Increase/(Decrease) in Accounts Payable | (206,965) | 301,343 |
| Increase/(Decrease) in Accrued Expense | 55,044 | 40,278 |
| Increase/(Decrease) in Accrued Payroll | 304,202 | 415,000 |
| Net Cash (Used) by Operating Activities | (487,149) | (1,336,410) |
| Investment Activities | | |
| Purchase of Equipment | - | (9,664) |
| Net Cash (Used) by Investment Activities | - | (9,664) |
| Financing Activities | | |
| Proceeds/(Repayment) Related Party Loans | (175,351) | (66,405) |
| Proceeds from Stock Sale of Stock | 150,000 | 445,000 |
| Proceeds from Notes Payable-Related Party | 512,500 | - |
| Prepaid Consulting-Stock Related | - | 837,973 |
| Subscriptions Receivable | - | - |
| Cash Provided by Financing Activities | 487,149 | 1,216,568 |
| Net Increase in Cash | - | (129,506) |
| Cash, Beginning of Period | - | 129,506 |
| Cash, End of Period | \$ - | \$ - |
| Cash Paid For: | | |
| Interest | \$ - | \$ - |
| Income Taxes | \$ - | \$ - |
| Non-cash Activities: | | |
| Stock issued for services | \$ 623,689 | \$ 514,877 |

The accompanying notes are an integral part of these statements

Industrial Nanotech, Inc.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
(December 31, 2009 and 2008)

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 Wyoming corporation with the same name organized 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 is 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.

The relevant accounting policies and procedures are listed below.

Accounting Basis

The statements were prepared following generally accepted accounting principles of the United States of America consistently applied.

Earnings (Loss) per Share

The basic earnings (loss) per share are calculated by dividing the Company’s net income 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 number of shares adjusted as of the first of the year for any potentially dilutive debt or equity

Dividends

The Company has not yet adopted any policy regarding payment of dividends. No dividends have been paid during the periods shown.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

Equipment

Equipment is stated at cost. Depreciation is compute using the straight-line method over their estimated useful lives ranging from five to seven to years. Maintenance and repairs are charged to expense as incurred. Fixed assets consist of the following:

| | <u>12/31/2009</u> | <u>12/31/2008</u> |
|--------------------------------|-------------------|-------------------|
| Office Equipment | \$ 30,637 | \$ 30,637 |
| Furniture and Fixtures | 12,850 | 12,850 |
| Total Fixed Assets | <u>43,487</u> | <u>43,487</u> |
| Less: Accumulated Depreciation | <u>(13,750)</u> | <u>(12,346)</u> |
| Equipment, net | <u>\$ 29,737</u> | <u>\$ 31,141</u> |

Other Assets

The Other Assets of \$6,190 are for security deposits.

Revenue Recognition

The Company recognizes revenue when a sale is made and the product is shipped.

Advertising

Advertising is combined with marketing costs and expensed when incurred. Marketing/Advertising costs for the periods ended December 31, 2009 and December 31, 2008 are \$346,716 and \$151,606 respectively.

Income Taxes

The provision for income taxes is the total of the current taxes payable and the net of the change in the deferred income taxes. Provision is made for the deferred income taxes where differences exist between the period in which transactions affect current taxable income and the period in which they enter into the determination of net income in the financial statements.

Earnings Per Share

Basic earnings per share are computed by dividing net income by the average number of common shares outstanding during the period. Diluted earnings per share takes into

consideration the potentially dilutive effect of common stock equivalents, such as outstanding stock options and warrants, which if exercised or converted into common stock would then share in the earnings of the Company. In computing diluted earnings per share, the Company utilizes the treasury stock method and anti-dilutive securities are excluded.

The Company has no outstanding option, warrants or other potential dilutive instruments.

Stock Based Compensation

The Company accounts for its stock based compensation based upon provisions in SFAS No. 123, *Accounting for Stock-Based Compensation*. In this statement stock based compensation is divided into two general categories, based upon who the stock receiver is, namely: employees/directors and non-employees/directors. The employees/directors category is further divided based upon the particular stock issuance plan, namely compensatory and non-compensatory. The employee/directors non-compensatory securities are recorded at the sales price when the stock is sold. The compensatory stock is calculated and recorded at the securities' fair value at the time the stock is given. SFAS 123 also provides that stock compensation paid to non-employees be recorded with a value which is based upon the fair value of the services rendered or the value of the stock given, whichever is more reliable. The Company has selected to utilize the fair value of services rendered.

Recent Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board (FASB) issued Statement No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles* which makes the Accounting Standards Codification (ASC) the source of authoritative U.S. GAAP recognized by the FASB to be applied by nongovernmental entities for interim and annual periods ending after September 15, 2009. Rules and interpretive releases of the SEC under the authority of federal securities laws are also sources of authoritative GAAP for SEC registrants.

The adoption of ASC Topic 105 did not have a material impact on the Company's financial position, cash flows or result of operations. Other recently issued or adopted accounting pronouncements are not expected to have, or did not have, a material effect on the Company's operations or financial position.

NOTE 2. GOING CONCERN

The accompanying 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. However, the Company has accumulated a loss of \$11,160,502. This raises substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments that might result from this uncertainty.

The Company's gross revenue for the years ended December 31, 2009 and 2008 are \$771,121 and \$1,424,036 respectively. The company must continue to raise funds in the near future to survive, in particular to support the growth of product development. Management has been successful in the past in raising these funds. There is no assurance that management can continue to find investors to cover the losses generated.

Management's Plans

The Company is currently preparing patent applications on additional technologies it has developed; is creating new technologies, and is pursuing the acquisition of additional intellectual property in nanotechnology. The overall objectives are to advance the development and commercialization of nanotechnologies through additional joint research agreements with top research facilities, development of a nanocomposite manufacturing and research facility, expansion of distribution networks worldwide, and the cultivation of future researchers through scholarships and research grants. Industrial Nanotech, Inc. has position itself to become the premier source for development of nanoscience solutions to industry.

Management plans to develop distributors throughout the United States and internationally and attract new customers through website marketing.

NOTE 3. NOTES PAYABLE

Notes payable as of September 30, 2009 and December 31, 2008 consist of the following:

| | <u>12/31/2009</u> | <u>12/31/2008</u> |
|---|-------------------|-----------------------------|
| Short Term Notes Payable: | | |
| Demand note, Unsecured, No due date, 6% interest, Shareholder/Related Party | \$ 433,361 | \$ 608,712 |
| Demand note, no due date, 6% interest, Shareholder/ Related Party | <u>512,500</u> | <u> </u> |
| Total Notes Payable | <u>\$ 945,861</u> | <u>\$ 608,712</u> |

NOTE 4. STOCKHOLDERS' EQUITY

Common Stock

Industrial Nanotech, Inc. (the Company) is a Delaware corporation organized on February 7, 2005. On March 14, 2005 the Company merged with a Wyoming corporation with the same name organized 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 is no change of control. The Wyoming corporation is operated as a wholly owned subsidiary.

The Company has currently authorized shares of 250,000,000, par value \$0.0001

- As of December 31, 2006 the Company had 161,992,692 common shares issued and outstanding. ices valued at \$40,000.

During the year 2007 the Company issued common shares as described below:

- The Company issued a total of 1,807,692 commons shares for cash ranging from \$0.065 to \$0.10 per share.
- The Company issued a total of 1,875,000 common shares for various services including consulting Scientific R & D and IRPR ranging with stock values ranging from \$0.065 to \$0.10 per share.

During the year 2008 the Company issued common shares as described below:

- The Company issued a total of 7,500,000 common shares for cash and subscriptions receivable at \$0.10 per share.
- The Company issued 6,231,429 common shares for various services at \$0.07 to \$0.10 per share.
- The Company issued 100,000 common shares for employee bonuses ranging from \$0.05 to \$0.10 per share.

During the year 2009 the Company issued common shares as described below:

- The Company issued a total of 7,435,791 common shares for \$150,000 cash ranging in a price of \$0.014 to \$0.036 per share.
- The Company issued a total of 33,732,731 shares at \$0.018 per share for various services including Sales Marketing, Consulting, Employee Bonus and Loan collateral.
- The Company issued a total of 550,000 shares of common stock at \$0.03 per share for employee bonus and consulting expense.
- The Company issued 200,000 shares of common stock at \$0.03 per share for and employee bonus and research and development costs.

NOTE 5. PROVISION FOR INCOME TAXES

The Company provides for income taxes under ASC 740 “Income Taxes” which requires the use of an asset and liability approach in accounting for income taxes. Deferred tax assets and

liabilities are recorded based on the differences between the financial statement and tax bases of assets and liabilities and the tax rates in effect currently.

The standard requires the reduction of deferred tax assets by a valuation allowance if, based on the weight of available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. In the Company's opinion, it is uncertain whether they will generate sufficient taxable income in the future to fully utilize the net deferred tax asset. Accordingly, a valuation allowance equal to the deferred tax asset has been recorded. The total deferred tax asset is \$2,445,310 which is calculated by multiplying a 22% estimated tax rate by the cumulative NOL of \$11,160,502. The total valuation allowance is a comparable \$2,445,310. Details for the Years ended December 31, 2009 and 2008 follow:

| | 31-Dec 2009 | 31-Dec 2008 |
|-----------------------|----------------|----------------|
| Deferred Tax Asset | \$285,626 | \$ 498,253 |
| Valuation Allowance | (285,626) | (498,253) |
| Current Taxes Payable | - | - |
| Income Tax Expense | <u>\$ -</u> | <u>\$ -</u> |

Below is a chart showing the estimated federal net operating losses and the years in which they will expire:

| Year | Amount | Expiration |
|-------|----------------------|------------|
| 2004 | 456,160 | 2024 |
| 2005 | 814,823 | 2025 |
| 2006 | 2,970,188 | 2026 |
| 2007 | 3,356,241 | 2027 |
| 2008 | 2,264,788 | 2028 |
| 2009 | <u>1,298,302</u> | 2029 |
| Total | <u>\$ 11,160,502</u> | |

The Company has not filed any federal income returns since inception.

NOTE 6. OPERATING LEASES AND OTHER COMMITMENTS:

Current operating leases for office space consist of a monthly payment of \$2,819. Management feels that the office space is not adequate for future growth but is uncertain of its future needs. Following is a five-year projection of the annual cost of the existing lease:

| | <u>Year 1</u> | <u>Year 2</u> | <u>Year 3</u> | <u>Year 4</u> | <u>Year5</u> |
|-------------|---------------|---------------|---------------|---------------|--------------|
| Real Estate | \$33,828 | \$33,828 | \$33,828 | \$33,828 | \$33,828 |

NOTE 7. THE EFFECT OF RECENTLY ISSUED ACCOUNTING STANDARDS

On July 1, 2009, we adopted authoritative guidance issued by the Financial Accounting Standards Board (“FASB”) on business combinations. The guidance retains the fundamental requirements that the acquisition method of accounting (previously referred to as the purchase method of accounting) be used for all business combinations, but requires a number of changes, including changes in the way assets and liabilities are recognized and measured as a result of business combinations. It also requires the capitalization of in-process research and development at fair value and requires the expensing of acquisition-related costs as incurred. Adoption of the new guidance did not have a material impact on our financial statements.

On July 1, 2009, we adopted the authoritative guidance issued by the FASB that changes the accounting and reporting for non-controlling interests. Non-controlling interests are to be reported as a component of equity separate from the parent’s equity, and purchases or sales of equity interests that do not result in a change in control are to be accounted for as equity transactions. In addition, net income attributable to a non-controlling interest is to be included in net income and, upon a loss of control, the interest sold, as well as any interest retained, is to be recorded at fair value with any gain or loss recognized in net income. Adoption of the new guidance did not have a material impact on our financial statements.

On July 1, 2009, we adopted the authoritative guidance on fair value measurement for nonfinancial assets and liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). Adoption of the new guidance did not have a material impact on our financial statements.

In June 2009, the FASB issued authoritative guidance on the consolidation of variable interest entities, which is effective for us beginning January 1, 2010. The new guidance requires revised evaluations of whether entities represent variable interest entities, ongoing assessments of control over such entities, and additional disclosures for variable interests. We believe adoption of this new guidance will not have a material impact on our financial statements.