



2005 Annual Report

Imagine the possibilities.

Imagine nanotubes 1,000 times smaller than the width of a human hair... wielding enormous influence in familiar materials and products.

Plastics.

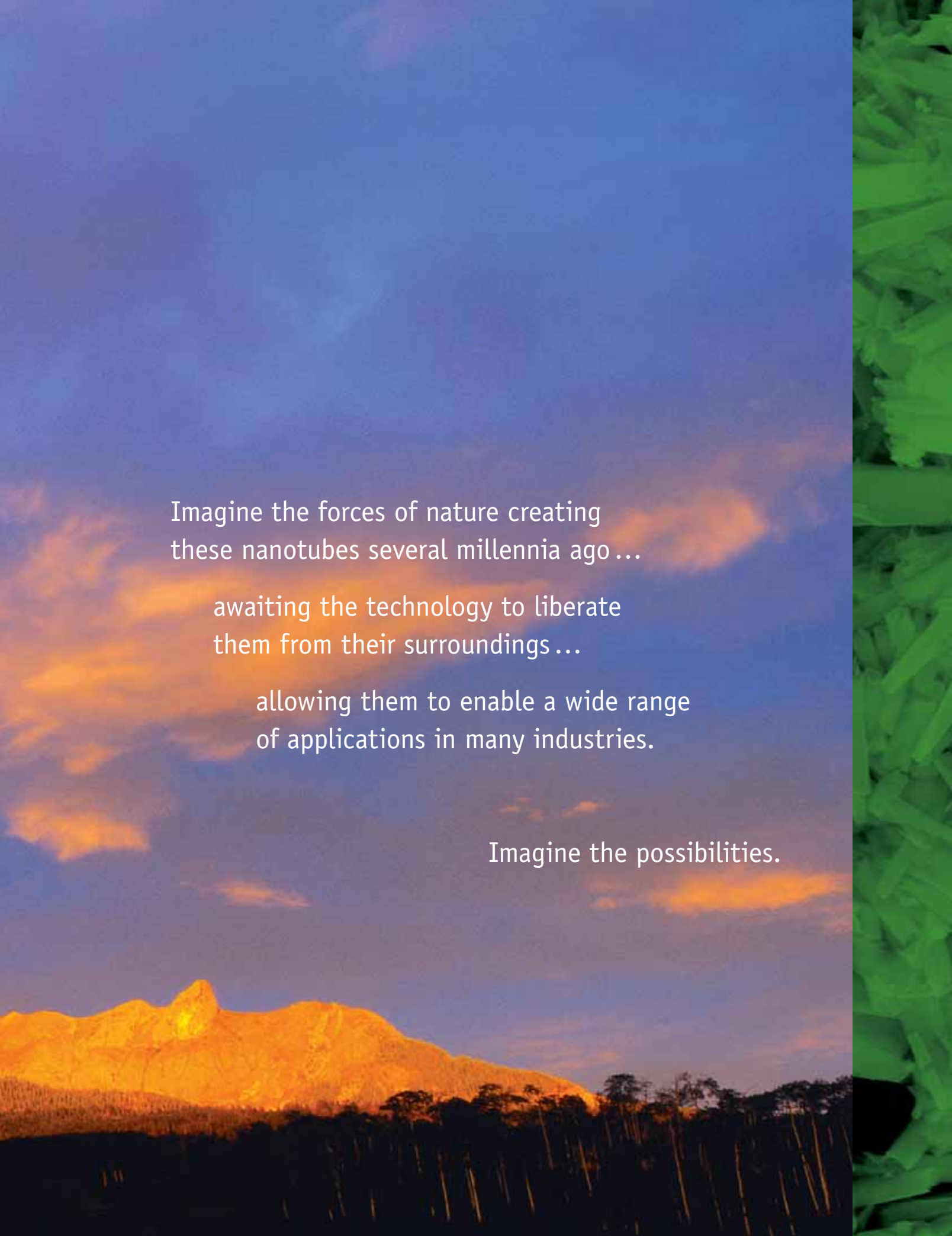
Cosmetics.

Detergents.

Electronics.

Imagine these nanotubes opening new markets and expanding the capabilities of common, everyday products.





Imagine the forces of nature creating
these nanotubes several millennia ago ...

awaiting the technology to liberate
them from their surroundings ...

allowing them to enable a wide range
of applications in many industries.

Imagine the possibilities.

About the Company

NaturalNano, Inc. (OTCBB: NNAN; FWB: N3N) is an early stage research and development company developing unique and proprietary processes for refining and functionalizing naturally occurring halloysite nanotubes and other nanomaterials that will add competitive properties for a range of applications.

NaturalNano possesses broad intellectual property rights and proprietary know-how covering use of these additives for cosmetics and personal care products, as well as electromagnetic interference shielding, and material additives for industrial polymers, plastics and composites.

Dear Shareholders:

In 2005, our first year as a public company, we have expanded our team, patent portfolio and scientific advisory board.

We have collaborative agreements in place with prominent research institutions including the U.S. Naval Research Laboratory with whom we have signed a CRADA and licensing agreement, Cornell University and Ytkemiska Institutet AB-Institute for Surface Chemistry in Stockholm, Sweden. Nanolution, LLC, a division of Biophan Technologies, Inc., is another important development partner. NaturalNano will provide the core material technologies that will enable Nanolution to develop innovative drug delivery technologies. We anticipate that these collaborations will lead to many new patentable inventions in the months and years ahead.



NaturalNano's focus is on developing, patenting and marketing proprietary technologies for industrial applications utilizing naturally-occurring, nanoscale materials in a wide range of industries. Our initial technologies for halloysite nanotubes can provide controlled and extended release of active ingredients for competitive market advantages in cosmetics, odor-masking products, pharmaceuticals, and the polymer industry.

NaturalNano is embracing the worldwide markets for nanotechnology. Our scientific advisory board consists of world-renowned scientists. Additionally, NaturalNano personnel have presented at numerous international scientific and financial conferences and have had several articles printed in industry publications.

NaturalNano has received recognition in major news media including *USA Today*, *The Washington Post*, *The Chicago Tribune* and The Fox News Network, to name a few. This media interest has sparked the attention of many companies as potential customers or development partners.

The NaturalNano team appreciates the confidence and support of our shareholders. We look forward to executing on our vision for the future with the goal of creating additional shareholder value.

Best regards,

A handwritten signature in green ink that reads "M. D. Riedlinger". The signature is stylized and fluid.

Michael D. Riedlinger
President and Director

Corporate Mission

Our mission is to develop and exploit technologies in the area of nanotechnology, specifically focusing on naturally occurring nanoscale materials.

Founded in December 2004, NaturalNano's strategy is to patent processes and application technologies and license the associated intellectual property to relevant industries including polymers, plastics and composites, cosmetics and personal care products.

We have established five main objectives to reach our mission:

- Build a dominant intellectual property portfolio
- Develop separation and functionalization processes and applications technologies
- Collaborate with potential customers in major market segments for specific, high-value applications
- Collaborate with research organizations to generate additional innovations and patents
- Establish strategic partners and enter into joint development relationships with the intent to license our technology

Markets of Special Interest

NaturalNano technologies may have applications in many industries where the benefits of controlled release of active ingredients or improvements in material properties may provide a competitive advantage. The Company has research and development projects underway related to these categories:

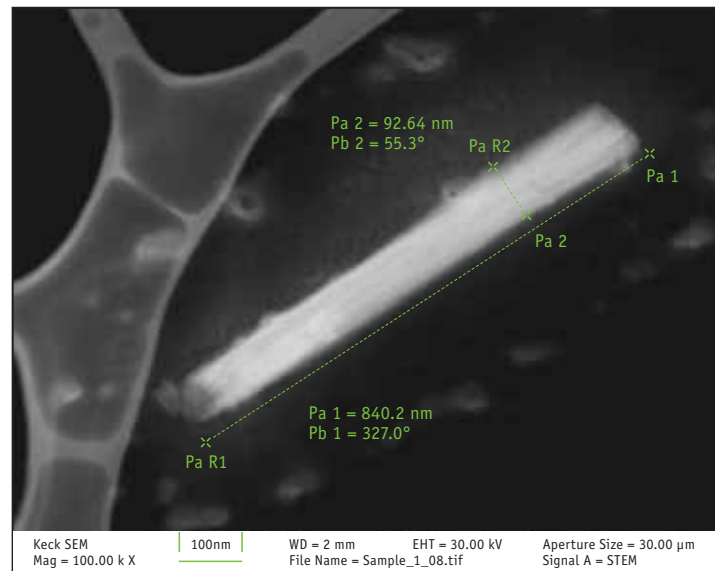
Polymers, plastics and coatings

NaturalNano technologies have potential applications to participate in the \$300+ billion¹ market for polymers and plastics. Halloysite nanotubes may be used for strengthening additives and for nanocomposite applications such as Radio Frequency (RF) shielding, ElectroMagnetic Interference (EMI) shielding, and Electro-Static Discharge (ESD) materials.

NaturalNano has patents pending and has licensed-in patented technologies in this category including a complementary technology for selective wireless access in RF shielded environment. Research and development is ongoing in our laboratory, as well as at other collaborating research centers including Cornell University.

Household Products and Cosmetics

Potential applications of NaturalNano technologies in this \$300+ billion² market may include extended and controlled release for odor masking and fragrance delivery in detergents, cleaners, fabric treatments, and other scented products. Extended and controlled release of fragrances also has applications in the cosmetics industry. Additionally, our technologies may provide extended and controlled release for many other active cosmetic ingredients such as moisturizers and protective agents.



Scanning Electron Microscope (SEM) view of a metallized halloysite nanotube.

NaturalNano has patents pending and has licensed-in patented technologies for use in extended and controlled release of active ingredients in this category as well. Additional research is being conducted under an agreement with Ytkemiska Institute in Stockholm, Sweden, which is renowned for their work in surface chemistry for household products and cosmetics.

Drug Delivery

NaturalNano is participating in the \$40 billion³ market for drug delivery through a development agreement with Nanolution LLC, a division of Biophan Technologies, Inc.

¹ Source: Society of Plastics Industry testimony given to House Ways and Means Committee, April 4, 2005
² Source: Euromonitor International, 2004
³ Source: Frost & Sullivan, 2002: Emerging Technologies in Drug Delivery

Halloysite clay processed and functionalized by NaturalNano.



Nature provides the nanofabrication process for halloysite nanotubes. We provide the technology to use them.

Natural Nanotubes

Natural nanotubes are extracted from halloysite clay.

NaturalNano applies its patented technologies to load halloysite nanotubes with active ingredients for specific applications, thus providing extended and controlled release capabilities.

Naturally formed in the Earth over millions of years, halloysite nanotubes exhibit remarkable properties. NaturalNano scientists are developing proprietary, patent-pending separation and classification processes to make halloysite nanotubes accessible for a wide variety of exciting new commercial applications.

Imagine the possibilities!



Dr. Aaron Wagner, Director of Research and Development, at NaturalNano's laboratory in Rochester, New York.

Strategic Partnerships

Leveraging strategic relationships is vital to our mission.

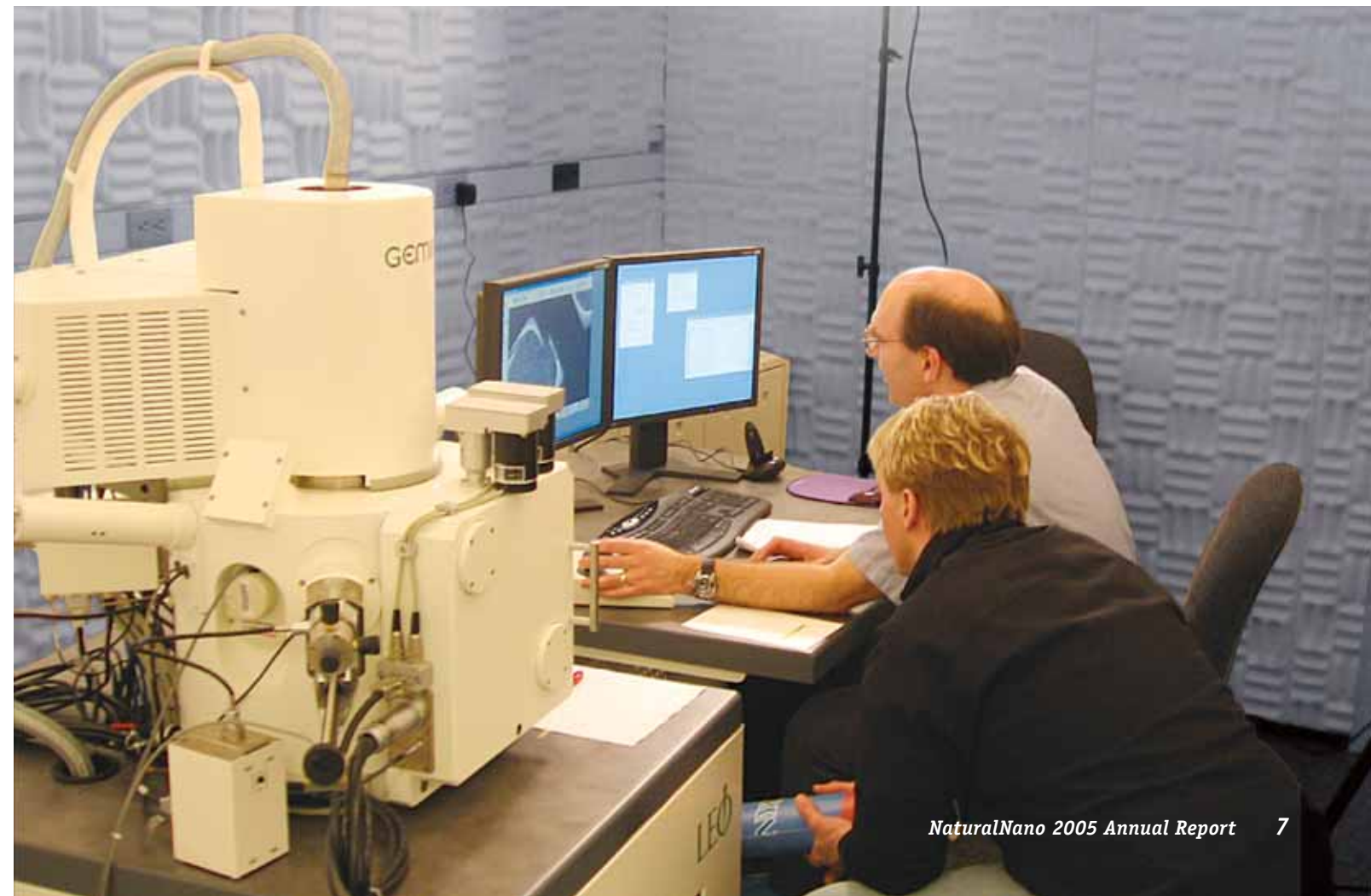
The Company has entered into research agreements with several nationally recognized universities such as Cornell University, Alfred University, and Ytkemiska Institute AB-Institute for Surface Chemistry in Stockholm, Sweden to jointly test and develop core technologies and commercial applications for naturally occurring nanoscale materials.

In June of 2005, NaturalNano, jointly with Nanolution, LLC, a wholly owned subsidiary of Biophan Technologies, Inc., entered into a Cooperative Research and Development Agreement with the Naval Research Laboratory. Under the CRADA, NaturalNano has been

building upon the extensive expertise and capabilities of the NRL and several of its key researchers for the use of halloysite and lipid microtubules for controlled release agents as well as the use of metallized microtubules for electromagnetic shielding. The CRADA has provided us the ability to leverage the capabilities of our staff scientists with the world renowned facilities, data and expertise of the researchers at the Naval Research Laboratory.

We will continue to seek partnering relationships with research facilities and commercial product suppliers around the world as we focus on developing new nanotechnology solution applications.

SEM analysis at Cornell University.



Intellectual Property

As of December 31, 2005, NaturalNano's holds the rights to twenty issued or pending patents related to its processes and technologies...and expects to continually invest in the growth of its intellectual property portfolio through in-house development of unique concepts and processes, as well as third party licensing and joint research programs.

This investment in intellectual property will include the filing of patent applications in the areas of material processing, new compositions of matter, and specific applications for use of the functionalized materials.

These patents cover technologies including nanotechnology in radio frequency (RF) shielding, electronics, polymer nanocomposites, slow-release nanocompositions for agriculture, odor masking and cosmetics.

NaturalNano's objective is to develop these technologies, license the associated patents to established companies, and support their work in bringing improved products to market.

The Company intends to aggressively pursue patent protection for new developments and technologies in the United States and in strategic foreign markets, in addition to licensing-in patents to augment our development opportunities.

Viewing a SEM image of a metallized halloysite nanotube.



Corporate and Shareholder/Investor Information

Management

Michael D. Riedlinger
President and Director

Kathleen A. Browne
Chief Financial Officer, Treasurer and Secretary

Sarah M. Cooper
Chief Technology Officer

Board of Directors

Michael L. Weiner, Chairman
President & CEO, Biophan Technologies, Inc.

Steven Katz
President, Steven Katz & Associates, Inc.

Ross B. Kenzie
Chairman & CEO, Goldome Bank (Retired)

John F. Lanzafame
Chief Operating Officer, Biophan Technologies, Inc.

Sharell L. Mikesell, Ph.D.
Co-Director, Center for Multifunctional Polymer Nanomaterials & Devices

Michael D. Riedlinger
President, NaturalNano, Inc.

Scientific Advisory Board

Robert Corkery, Ph.D.
Ytkemiska Institute AB-Institute for Surface Chemistry, Stockholm, Sweden

Emmanuel P. Giannelis, Ph.D.
Cornell University

Raymond Kurzweil
Kurzweil Technologies, Inc.

Audit Committee

Steven Katz, *Chairman*
Ross B. Kenzie

Compensation Committee

Ross B. Kenzie, *Chairman*
Steven Katz
Michael L. Weiner

Corporate Headquarters

NaturalNano, Inc.
150 Lucius Gordon Drive
Suite 115
West Henrietta, NY 14586

Legal Counsel

Nixon Peabody LLP
Clinton Square
PO Box 31051
Rochester, NY 14603-1051

Independent Accountant

Goldstein Golub Kessler LLP
1185 Avenue of the Americas, Suite 500
New York, NY 10036-2602

Transfer Agent

Interstate Transfer Company
6084 South 900 East, Suite 101
Salt Lake City, Utah 84121

Stock Information

NaturalNano's common stock is traded on the OTC Bulletin Board under the symbol NNAN. The Company is also traded on the Frankfurt Stock Exchange under the symbol N3N.

A copy of this annual report and the Form 10-KSB for the year ended December 31, 2005 included with this annual report, including all exhibits, thereto, filed with the Securities and Exchange Commission, may be obtained from our website at www.naturalnano.com or upon written or telephone request to: Investor Relations, NaturalNano, Inc., 150 Lucius Gordon Drive, Suite 115, West Henrietta, NY 14586, Telephone: (585) 214-8005.



Imagine the possibilities.

Tel: 585.214.8005 // Fax: 585.214.8182 // Email: info@naturalnano.com // www.naturalnano.com
150 Lucius Gordon Drive, Suite 115, West Henrietta, New York 14586 // OTCBB: NNAN // FWB: N3N

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