

California Nanotechnologies Corp.
Condensed Consolidated Financial Statements
For the interim nine month period ended November 30, 2016
(in United States Dollars)

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UNAUDITED INTERIM FINANCIAL STATEMENTS

In accordance with National Instrument 51-102 released by the Canada Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited condensed consolidated financial statements for the period ended November 30, 2016.

NOTICE TO THE READER OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The interim financial statements of California Nanotechnologies Corp. and the accompanying interim condensed consolidated statements of financial position as at November 30, 2016 and the interim condensed consolidated statements of loss, comprehensive loss, changes in equity and cash flows for the nine month period ended are the responsibility of the Company's management.

These condensed consolidated financial statements have not been reviewed on behalf of the shareholders by the independent external auditors of the Company, MNP LLP.

The condensed consolidated interim financial statements have been prepared by management and include the selection of appropriate accounting principles, judgments and estimates necessary to prepare these condensed consolidated interim financial statements in accordance with IAS 34, Interim Financial Reporting as issued by the International Accounting Standards Board ("IASB").

signed "David F. Grant"
David F. Grant
CEO
January 27, 2017

signed "Roger Dent"
Roger Dent
Director
January 27, 2017

California Nanotechnologies Corp.
Condensed Consolidated Statements of Financial Position
United States Dollars

As at	Note	November 30, 2016	February 29, 2016
		(unaudited)	
ASSETS			
Current assets			
Cash		\$ 66,191	\$ 108,687
Accounts receivable	13	26,016	46,860
Inventory	4	483	-
Prepaid expenses and other current assets		19,479	13,717
Total current assets		112,169	169,264
Equipment	6	50,897	57,487
Intangible assets	7	55,557	65,557
Total assets		\$ 218,623	\$ 292,308
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		\$ 59,785	\$ 96,551
Income taxes payable		2,400	1,600
Finance lease obligation	9	740	754
Line of credit	8	40,000	-
Advances from related parties	5	1,045,522	1,045,522
Share purchase warrants	11(b)	30,802	20,963
Total current liabilities		1,179,249	1,165,390
Lease obligation	9	1,919	2,529
Total liabilities		1,181,168	1,167,919
Shareholders' equity			
Share capital	11	2,902,277	2,889,969
Contributed surplus	13	234,818	226,469
Deficit		(4,099,640)	(3,992,049)
Total shareholders' equity		(962,545)	(875,611)
Total liabilities and shareholders' equity		\$ 218,623	\$ 292,308

“signed” David Grant
 Director

“signed” Roger Dent
 Director

California Nanotechnologies Corp
Condensed Consolidated Statements of Loss and Comprehensive Loss
United States Dollars
(Unaudited – prepared by management)

	Note	For the nine month period ended November 30, 2016	For the nine month period ended November 30, 2015	For the three month period ended November 30, 2016	For the three month period ended November 30, 2015
Revenue		\$ 465,463	\$ 330,216	\$ 261,996	\$ 143,567
Cost of goods sold		184,108	68,531	127,785	26,274
Gross margin		281,355	261,685	134,211	117,293
Expenses					
Advertising and promotion		19,242	10,590	7,877	2,067
Amortization and depreciation - equipment and intangible assets	6,7	16,590	27,480	5,833	7,846
Consulting		42,492	1,545	5,900	1,520
Office		19,092	30,161	6,361	6,433
Professional fees		23,239	22,779	6,549	2,310
Repairs and maintenance		-	4,775	-	2,772
Research		13,430	25,688	-	15,000
Salaries, wages and benefits		185,250	199,373	62,890	56,512
Supplies		19,334	14,082	8,404	1,365
Travel and entertainment		8,390	7,519	2,696	202
Share-based compensation	13	12,964	16,639	4,624	5,104
		360,023	360,631	111,134	101,131
Income (loss) from operations		(78,668)	(98,946)	23,077	16,162
Other income		-	43,500	-	43,500
Foreign exchange gain (loss)		(1,789)	(1,138)	(224)	(1,537)
Interest income (expense)		(16,495)	(15,783)	(5,674)	(5,238)
Unrealized gain (loss) on share purchase warrants	11(b)	(9,839)	(17,551)	(30,802)	(19,578)
Loss before income taxes		(106,791)	(89,918)	(13,623)	33,309
Provision for income taxes		800	800	-	-
Net loss and comprehensive loss		\$ (107,591)	\$ (90,718)	\$ (13,623)	\$ 33,309
Loss per share - basic	12	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.01)
- diluted	12	(0.01)	(0.01)	(0.01)	(0.01)
Weighted average shares outstanding - basic	11	31,430,296	31,230,296	31,430,296	31,230,296
- diluted		31,430,296	31,230,296	31,430,296	31,230,296

California Nanotechnologies Corp.
Condensed Consolidated Statements of Changes in Equity
United States Dollars
(Unaudited – prepared by management)

	Note	Share capital	Contributed surplus	Deficit	Total
Balance at February 29, 2016		\$ 2,889,969	\$ 226,469	\$ (3,992,049)	\$ (875,611)
Shares issued upon option exercise	11(b)	12,308	(4,615)	-	7,693
Share-based compensation	13	-	12,964	-	12,964
Net loss and comprehensive loss		-	-	(107,591)	(107,591)
Balance at November 30, 2016		\$ 2,902,277	\$ 234,818	\$ (4,099,640)	\$ (962,545)

California Nanotechnologies Corp.
Condensed Consolidated Statements of Cash Flows
United States Dollars
(Unaudited – prepared by management)

Note	For the nine month period ended November 30, 2016	For the nine month period ended November 30, 2015	For the three month period ended November 30, 2016	For the three month period ended November 30, 2015
Cash provided by (used for) the following activities				
Operating activities				
	\$ (107,591)	\$ (90,718)	\$ (13,623)	\$ 33,309
Net loss				
Amortization and depreciation - equipment and intangible assets	6,7 16,590	27,480	5,833	7,846
Unrealized (gain) loss on share purchase warrants	9,839	17,551	30,802	19,578
Share-based compensation	13 12,964	16,639	4,624	5,104
	(68,198)	(29,048)	27,636	65,837
Changes in working capital accounts				
Accounts receivable	20,844	(35,343)	4,329	(69,176)
Inventory	(483)	(9,540)	2,280	(4,946)
Prepaid expenses and other current assets	(5,762)	(12,053)	51,004	(6,314)
Income taxes payable	800	800	-	-
Accounts payable and accrued liabilities	(36,766)	(7,235)	(2,219)	27,408
Unearned revenue	-	-	(60,121)	-
	(89,565)	(92,419)	22,999	12,809
Net cash provided by (used for) operating activities				
Financing activities				
Payments to lease obligation	(624)	(513)	(255)	(175)
Payments to related parties	-	(19,151)	-	-
Advances from related parties	5 -	33,347	-	1,833
Payments to credit line	5 (30,000)	-	(29,935)	-
Proceeds from credit line	8 70,000	-	50,000	-
Issue of common shares	11(b) 7,693	-	-	-
	47,069	13,683	19,810	1,658
Net cash provided by financing activities				
Investing activities				
Purchase of equipment	-	(4,235)	-	-
	-	(4,235)	-	-
Net cash used for investing activities				
Increase (decrease) in cash resources	(42,496)	(82,971)	42,809	14,467
Cash, beginning of period	108,687	185,089	23,382	87,651
Cash, end of period	\$ 66,191	\$ 102,118	\$ 66,191	\$ 102,118

California Nanotechnologies Corp.
Notes to Condensed Consolidated Financial Statements
United States Dollars
For the interim period ended November 30, 2016

1. Incorporation and operations

Veritek Technologies Inc. was incorporated under the laws of the Province of Alberta on May 19, 2002. On February 1, 2007, the Company changed its name to California Nanotechnologies Corp. (the "Company") in connection with the reverse takeover with California Nanotechnologies Inc. The condensed consolidated financial statements of the Company for the period ended November 30, 2016 include the accounts of the Company and its wholly-owned subsidiaries. The condensed consolidated financial statements were authorized for issue by the Board of Directors on January 27, 2017. Its head office, research and development, and production operations are located at 17220 Edwards Road, Cerritos, California, U.S.A, 90703. A corporate, registered office is located at 517 - 10th Avenue S.W., Calgary, Alberta T2R 0A8. Since the date of the reverse takeover, the Company has been devoted to the development of nanocrystalline materials through grain size reduction. The advantages of these materials include improved strength and durability. The Company's target markets are Aerospace, Defense, Automotive, Medical and Sports and Recreation. Since the most significant portion of the Company's operation is located in the United States and its functional currency is denominated in United States dollars, these condensed consolidated financial statements are presented in United States dollars. The Company is listed for trading on the Toronto Stock Exchange Venture under the symbol CNO. The Company has made an application to trade its shares on the OTCQB in the United States. If this application is accepted, the Company will trade under the symbol CANOF.

2. Going concern

These condensed consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the payment of liabilities in the ordinary course of business. Should the Company be unable to continue as a going concern, it may be unable to realize the carrying value of its assets and to meet its liabilities as they become due.

The Company has a net loss for the period of 107,591 (2015 - \$90,718) and negative cash flows from operating activities of \$89,565 (2015 - \$92,419). In addition, the Company has an accumulated deficit of \$4,099,640 (February 29, 2016 - \$3,992,049). These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern.

The Company's ability to continue as a going concern is dependent upon its ability to attain profitable operations and generate funds therefrom, and to continue to obtain equity investment and borrowings sufficient to meet current and future obligations and/or restructure the existing debt and payables. These condensed consolidated financial statements do not reflect the adjustments or reclassification of assets and liabilities which would be necessary if the Company were unable to continue its operations.

3. Significant accounting policies

These condensed consolidated financial statements have been prepared by management in accordance with IAS 34, Interim Financial Reporting as issued by the International Accounting Standards Board ("IASB"). The principal accounting policies are set out below. These condensed interim consolidated financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the Consolidated Financial Statements and the notes thereto in the Company's Audited Annual Financial Statements for the year ended February 29, 2016.

Any standards and interpretations that have been issued but are not yet effective, and that are available for early application, have not been applied to the Company in these condensed consolidated financial statements. The impact of these standards and interpretations on the Company is still to be assessed.

California Nanotechnologies Corp.
Notes to Condensed Consolidated Financial Statements
United States Dollars
For the interim period ended November 30, 2016

3. Significant accounting policies - continued

The preparation of condensed consolidated financial statements requires management to make estimates and judgments that affect the amounts reported in the condensed consolidated financial statements and accompanying notes. Actual results could differ from those estimates. The condensed consolidated financial statements have, in management's opinion, been properly prepared using careful judgment with reasonable limits of materiality and within the framework of the significant accounting policies summarized below:

(a) Consolidation

The Company has consolidated the assets, liabilities, revenues and expenses of the subsidiaries after the elimination of intercompany transactions and balances. These condensed consolidated financial statements include the accounts of the Company, and its wholly owned subsidiaries, California Nanotechnologies Inc. and White Roof Solutions, Inc.

(b) Basis of measurement

These condensed consolidated financial statements have been prepared on a going concern basis, using the historical cost convention except for share-based payments and financial assets classified as fair value through profit or loss or available for sale which are measured at fair value. In addition, they have been prepared on an accrual basis of accounting except for cash flow information.

(c) Revenue recognition

Revenue is recognized when goods are shipped or services provided to the customer, significant contractual obligations have been satisfied, and collection of the resulting receivable is reasonably assured. The Company recognizes revenue and profits from contracts on the percentage of completion basis, and accordingly costs are expensed as incurred and revenue is recognized only to the extent of contract costs incurred that will be recoverable. Expected losses are recognized immediately when it is probable that total contract costs will exceed total contract revenue. Revenue on investments is recognized on an accrual basis.

(d) Cash

Cash includes balances with banks. Any bank indebtedness is covered with the Company's overdraft protection in the amount of \$30,000.

(e) Business combinations

The Company uses the acquisition method of accounting to account for business combinations. The consideration transferred is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Company. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

(f) Equipment

Equipment is carried at historical cost less accumulated depreciation. Depreciation is provided using the straight line method and is calculated over the estimated useful life of the assets, which has been estimated as seven years for nanotechnology equipment and three years for roof coating equipment. Borrowing costs are capitalized that are directly attributable to the acquisition of equipment. The Company reviews the criteria for capitalization and the useful life of its equipment on an on-going basis considering changes in circumstances.

California Nanotechnologies Corp.
Notes to Condensed Consolidated Financial Statements
United States Dollars
For the interim period ended November 30, 2016

3. Significant accounting policies - continued

(f) Equipment - continued

When the cost of a part of an item of equipment is significant in relation to the total cost of an item and the items have different useful lives, they are accounted for as separate items (significant components) of equipment. The costs of day-to-day servicing of equipment are recognized in direct operating expenses. Gains and losses on disposal of an item of equipment is determined by comparing the proceeds from disposal with the carrying amount of equipment, and are recognized net within other (income) expense in the condensed consolidated statements of loss and comprehensive loss. Depreciation methods, useful lives and residual values are reviewed at the end of each reporting period and adjusted if appropriate.

(g) Leased assets

Leases in terms of which the Company assumes substantially all of the risks and rewards of ownership are classified as finance leases and are capitalized at the commencement of the lease term at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Other leases are operating leases and are not recognized in the Company's condensed consolidated statement of financial position.

(h) Intangible assets

Intangible assets are comprised of intellectual property, customer relationships, trade secrets, use of operating rights and contract intangibles. Intangible assets are recorded at cost less any accumulated amortization and/or impairment losses. Intangible assets are amortized on a straight-line basis over their estimated useful life of 15 years and are assessed for impairment whenever there is an indication that the intangible asset be impaired. The amortization method and amortization period of an intangible asset is reviewed at least annually.

(i) Impairment of non-financial assets excluding goodwill

The Company assesses, at the end of each reporting period, whether there is an indication that an asset group be impaired. If any indication of impairment exists, the Company estimates the recoverable amount of the asset group. External triggering events include, for example, changes in customer or industry dynamics, other technologies and economic declines. Internal triggering events for impairment include lower profitability or planned restructuring. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets, cash generating units ("CGU").

If the carrying amount of the asset, or its respective CGU, exceeds its estimated recoverable amount, the difference is recognized as an impairment charge. The Company's corporate assets, which do not generate separate cash inflows, are allocated to the CGUs on a reasonable basis for impairment testing purposes.

The Company's impairment tests compare the carrying amount of the asset or CGU to its recoverable amount. The recoverable amount is the higher of fair value less costs to sell ("FVLCS") and value in use ("VIU"). FVLCS is the amount obtainable from the sale of an asset or CGU in an arm's length transaction of similar assets or observable market prices, less the costs of disposal. The determination of VIU requires the estimation and discounting of cash flows which involves key assumptions that consider all information available on the respective testing date. Management uses its judgment, considering past and actual performance as well as expected developments in the respective markets and in the overall macro-economic environment and economic trends to model and discount future cash flows.

California Nanotechnologies Corp.
Notes to Condensed Consolidated Financial Statements
United States Dollars
For the interim period ended November 30, 2016

3. Significant accounting policies - continued

(j) Provisions

Provisions cover risks resulting from legal disputes and proceedings. In order to determine the amount of the provisions, the facts related to each case, the size of the claim, awards in similar cases, the expected timing of such possible awards, insurance coverage and deductibles and independent expert advice are considered along with assumptions regarding the probability of a successful claim and the range of possible awards. The actual costs can deviate from these estimates.

A provision is recognized in the condensed consolidated financial statements when the Company has a material obligation, whether existing or potential, as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If the obligation is determined to be material, then the estimated amount of the provision is determined by discounting the expected future cash outflows. At February 29, 2016 and February 29, 2015 there were no provisions recognized in the condensed consolidated financial statements.

(k) Income taxes

Income tax expense for the period consists of current and deferred tax. Deferred tax is recognized in the condensed consolidated statement of loss and comprehensive loss, except to the extent that it relates to a business combination or items recognized in other comprehensive loss ("OCL") or directly in equity.

Taxable income differs from income as reported in the condensed consolidated statements of loss and comprehensive loss. As a result, current tax is the expected tax due on taxable income less adjustments to prior periods using tax rates enacted, or substantively enacted as at the reporting date in jurisdictions where the Company operates.

In general, deferred taxes are recognized based on temporary differences arising between the tax value of assets and liabilities and their carrying amounts in the condensed consolidated financial statements. Deferred tax liabilities are not recognized and are not accounted for if they arise from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable income. Deferred taxes are calculated on the basis of the tax laws enacted or substantively enacted as at the reporting date and apply to when the related deferred tax asset is realized or the deferred tax liability is settled.

Current and deferred tax assets and liabilities are offset when there is a legally enforceable right to settle on a net basis and when such assets and liabilities relate to income taxes imposed by the same taxation authority.

(l) Foreign exchange

These condensed consolidated financial statements have been presented in United States (U.S.) dollars, the functional currency of the Company's operations. Monetary assets and liabilities denominated in foreign currencies are translated into U.S. dollars at the foreign exchange rate in effect at the statement of financial position date. Revenue and expense transactions in foreign currencies are translated to the appropriate functional currency at the foreign exchange rate on the date of the transaction with all consequential exchange differences recognized in net loss.

Non-monetary assets that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transactions. All resulting exchange differences from translation of the functional currency into a different reporting currency are recognized as a separate component of other comprehensive loss.

California Nanotechnologies Corp.
Notes to Condensed Consolidated Financial Statements
United States Dollars
For the interim period ended November 30, 2016

3. Significant accounting policies - continued

(m) Share-based compensation plan

The Company provides equity-settled share-based payments in the form of a share option plan to its employees, officers, directors and consultants. The Company accounts for these share options using the fair value method of accounting for share-based compensation expense. Under this method, the associated compensation expense is charged to net loss and comprehensive loss with a corresponding increase to contributed surplus less an estimated forfeiture rate over each vesting period (tranches) of the options granted. The forfeiture rate is based on past experience of actual forfeitures. Each tranche is treated as a separate share option grant, and subsequently valued at the start of each tranche's vesting period.

Share-based compensation transactions with non-employees are measured at the fair value of the goods or services recovered. However, if the fair value cannot be estimated reliably, the share-based compensation transaction is measured at the fair value of the equity instruments granted at the date the non-employee provides the goods or services.

(n) Per share amounts

Basic loss per share is calculated using the weighted average number of shares outstanding during the period. The Company follows the treasury stock method for the computation of diluted per share amounts. This method assumes the proceeds from the exercise of dilutive options and warrants are used to purchase common shares at the weighted average market price during the period.

(o) Research and development expenses

Expenses related to research and development activities that do not meet generally accepted criteria for deferral are expensed as incurred, net of related tax credits and government grants. Development expenses that meet generally accepted criteria for deferral, in accordance with the IAS 38, "Intangible Assets", are capitalized, net of related tax credits and government grants, and are amortized against earnings over the estimated benefit period. The Company assesses, at the end of each reporting period, whether there is an indication the assets may be impaired. If any indication of impairment exists, the Company estimates the recovery amount of the assets. Research and development expenses are mainly comprised of salaries and related expenses, material costs as well as fees paid to third party consultants.

(p) Financial instruments

All financial instruments are required to be measured at fair value on initial recognition of the instrument. Measurement in subsequent periods depends on whether the financial instrument has been classified as "fair value through profit or loss", "available-for-sale", "held-to-maturity", "loans and receivables", or "other financial liabilities" as defined by the standard.

Financial assets and financial liabilities classified as "fair value through profit or loss" are measured at fair value with changes in those fair values recognized in net loss. Financial assets, classified as "loans and receivables" and financial liabilities classified as "other financial liabilities" are measured at amortized cost using the effective interest method of amortization.

Cash and share purchase warrants are designated as "fair value through profit or loss". Accounts receivable are designated as "loans and receivables". Accounts payable and accrued liabilities, and advances from related parties are designated as "other liabilities".

Financial instruments measured at fair value on the consolidated statement of financial position require classification into one of the following levels of the fair value hierarchy:

California Nanotechnologies Corp.
Notes to Condensed Consolidated Financial Statements
United States Dollars
For the interim period ended November 30, 2016

3. Significant accounting policies - continued

(p) Financial instruments - continued

- Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 - Inputs other than quoted prices listed in Level 1 that are observable for the asset or liability either directly or indirectly;
- Level 3 - Inputs that are not based on observable market data.

The fair value hierarchy level at which a fair value measurement is categorized is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

A financial asset is assessed at each reporting date to determine whether it is impaired based on objective evidence indicating that one or more events have had a negative effect on the estimated future cash flows of that asset. An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the net present value of the estimated future cash flows discounted at the original effective interest rate. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics. All impairment losses are recognized in net loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized.

(q) Significant accounting estimates and judgments

The preparation of condensed consolidated financial statements in conformity with IFRS requires management to make estimates and judgments that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosure of contingent assets and liabilities at the reporting date. On an ongoing basis, management evaluates its judgments and estimates in relation to revenue, expenses, assets and liabilities. Management uses historical experience and various other factors it believes to be reasonable under the given circumstances as the basis for its judgments and estimates. Actual outcomes differ from these estimates under different assumptions and conditions.

The following are the most significant accounting judgments and estimates made by the Company in applying accounting policies:

Judgments

Determining cash generating units (“CGU’s”)

For the purpose of assessing impairment of tangible and intangible assets, assets are grouped at the lowest level of separately identified cash flows which make up the CGU. Determination of what constitutes a CGU is subject to management judgment. The asset composition of a CGU can directly impact the recoverability of assets included within the CGU. In assessing the recoverability of tangible and intangible assets, each CGU’s carrying value is compared to the greater of its fair value less costs to sell and value in use.

Deferred taxes

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable earnings will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable earnings together with future tax planning strategies.

California Nanotechnologies Corp.
Notes to Condensed Consolidated Financial Statements
United States Dollars
For the interim period ended November 30, 2016

3. Significant accounting policies - continued

(q) Significant accounting estimates and judgments - continued

Estimates

Valuation of accounts receivables

Accounts receivable are reviewed on a regular basis to estimate recoverability of balances. Accounts receivable are stated after evaluation as to their collectability and an appropriate allowance for doubtful accounts is provided where considered necessary.

Business combinations

Business combinations have been accounted for using the acquisition method of accounting. Under the acquisition method, the acquiring company adds to its statement of financial position the estimated fair values of the acquired assets and liabilities. There are various assumptions made when determining the fair values of the assets and liabilities acquired. The most significant assumptions and those requiring the most judgment involve the estimated fair value of intangible assets.

Share-based payments

The Company uses an option pricing model to determine the fair value of share-based payments. Inputs to the model are subject to various estimates about volatility, interest rates, dividend yields, forfeiture rates and expected life of the units issued. Fair value inputs are subject to market factors as well as internal estimates. The Company considers historic trends together with any new information to determine the best estimate of fair value at the date of grant.

Depreciation and amortization

The condensed consolidated financial statements include estimates of the useful economic life of equipment and intangibles. Due to varying assumptions required to be made with regards to future recoverability of these assets, the depreciation and amortization recorded by management is based on their best estimate in this regard and be significantly different from those determined based on future operational results.

(r) New accounting policies

For the nine months ended November 30, 2016, the Company did not adopt any new IFRS standards.

(s) Recent accounting pronouncements

In May 2014, the IASB issued IFRS 15 “Revenue from Contracts with Customers”, which replaces International Accounting Standard (“IAS”) 18 “Revenue”, IAS 11 “Construction Contracts”, and related interpretations. The standard is required to be adopted either retrospectively or using a modified transition approach for fiscal years beginning on or after January 1, 2018, with earlier adoption permitted. IFRS 15 will be applied by the Company on March 1, 2018 and the Company is currently evaluating the impact of the standard on its condensed consolidated financial statements.

California Nanotechnologies Corp.
Notes to Condensed Consolidated Financial Statements
United States Dollars
For the interim period ended November 30, 2016

3. Significant accounting policies - continued

(s) Recent accounting pronouncements - continued

In July 2014, the IASB completed the final elements of IFRS 9 “Financial Instruments”. The standard supersedes earlier versions of IFRS 9 and completes the IASB’s project to replace IAS 39 “Financial Instruments: Recognition and Measurement”. IFRS 9, as amended, includes a principle-based approach for classification and measurement of financial assets, a single ‘expected loss’ impairment model and a substantially reformed approach to hedge accounting. The standard will come into effect for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. IFRS 9 will be applied on a retrospective basis by the Company on March 1, 2018 and the Company is currently evaluating the impact of the standard on its condensed consolidated financial statements.

In January 2016, the IASB issued IFRS 16 “Leases”, which replaces IAS 17 “Leases”. For lessees applying IFRS 16, a single recognition and measurement model for leases would apply, with required recognition of assets and liabilities for most leases. The standard will come into effect for annual periods beginning on or after January 1, 2019, with earlier adoption permitted if the entity is also applying IFRS 15 “Revenue from Contracts with Customers”. IFRS 16 will be applied by the Company on March 1, 2019 and the Company is currently evaluating the impact of the standard on its condensed consolidated financial statements.

4. Inventory

The major components of inventory are classified as follows:

	November 30, 2016	February 28, 2015
Finished goods	\$ 483	-

The cost of finished goods inventories recognized as expense and included in cost of goods sold was \$184,108 (November 30, 2015 - \$68,531). There were no recurring inventory write-downs included in cost of goods sold.

California Nanotechnologies Corp.
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5. Related party transactions

Advances from related parties are from a related entity. The advances bear interest at 2% per annum and are due upon demand. There are no set terms for repayment and the loan is secured by all the assets of the Company. Interest in the amount of \$15,593 (2015 - \$nil) was paid on the advances with accrued interest in the amount of \$137,541 (2015 - \$141,160). The related party contracted with the Company for revenue of \$159,993 (November 30, 2015 - \$24,298) and provided services in the amount of \$44,955 (November 30, 2015 - \$2,820). The transactions are considered to be in the normal course of operations and are initially recognized at their fair value.

	November 30, 2016	February 29, 2016
Advances from related parties	\$ 1,045,522	\$ 1,045,522

Significant subsidiaries:

The table below provides information relative to California Nanotechnologies Corp.'s significant subsidiaries, including the entity's name, its jurisdiction of incorporation/formation, the percentage of securities directly or indirectly owned by California Nanotechnologies Corp., and the market areas served, if applicable.

Company (Jurisdiction of Incorporation/ Formation	Percentage of ownership by California Nanotechnologies Corp.	Overview	Market Area
California Nanotechnologies Inc. (California, USA)	100%	Wholly-owned subsidiary of California Nanotechnologies Corp. which was formed and incorporated on February 4, 2005. It is the head office which conducts research and development, and materials processing.	USA
White Roof Solutions Inc. (California, USA)	100%	Wholly-owned subsidiary of California Nanotechnologies Inc. which was formed and incorporated on May 21, 2012. It conducts sales of the application of white solar reflective roof coatings.	USA

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6. Equipment

	Nanotechnology equipment	Roof coating equipment	Totals
Cost			
At February 28, 2015	\$ 972,000	\$ 8,520	\$ 980,520
Disposals	(10,060)	-	(10,060)
At February 29, 2016 and November 30, 2016	961,940	8,520	970,460
Accumulated depreciation			
At February 28, 2015	843,486	4,703	848,189
Disposals	(10,060)	-	(10,060)
Depreciation	21,201	1,687	22,888
At February 29, 2016	904,453	8,520	912,973
Depreciation	6,590	-	6,590
At November 30, 2016	911,043	8,520	919,563
Net book value			
At February 29, 2016	57,487	-	57,487
At November 30, 2016	\$ 50,897	\$ -	\$ 50,897

7. Intangible assets

	Trade secrets	Use of operating rights	Customer list	Customer contract	Totals
Cost					
At February 28, 2015, February 29, 2016 and May 31, 2016	\$ 100,000	\$ 50,000	\$ 27,000	\$ 23,000	\$ 200,000
Accumulated amortization					
At February 28, 2015	60,557	30,277	16,350	13,926	121,110
Amortization	6,667	3,333	1,800	1,533	13,333
At February 29, 2016	67,224	33,610	18,150	15,459	134,443
Amortization	5,000	2,500	1,350	1,150	10,000
At November 30, 2016	72,224	36,110	19,500	16,609	144,443
Net book value					
At February 29, 2016	32,776	16,390	8,850	7,541	65,557
At November 30, 2016	\$ 27,776	\$ 13,890	\$ 7,500	\$ 6,391	\$ 55,557

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8. Line of credit

	November 30, 2016	February 29, 2016
Effective July, 2016, the Company established a commercial advance line of up to \$30,000 for operating purposes, bearing interest at 8%, repayable in monthly principal and interest installments. The credit line is personally guaranteed by a director of the Company.	\$ -	\$ -
Effective September 2016, the Company established a new long-term primary credit facility (the "Credit Agreement") with total credit facilities of up to \$250,000, comprised of a commercial advance line in the amount of \$250,000, bearing interest at the Prime Rate plus one-half of one percent (0.50%) maturing on January 30, 2017. The Credit Agreement is secured by all the accounts, inventory, equipment, and general intangibles of the Company and guaranteed by a related party.	40,000	-
Less: current portion	(40,000)	-
	\$ -	\$ -

Interest of \$658 (2015 - \$nil) related to the advance line has been recorded as interest expense in the condensed consolidated statements of net loss and comprehensive loss for the period ended November 30, 2016.

Future principal repayments to the advance line of credit are as follows:

2016	\$ 40,000
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9. Finance lease obligation

	November 30, 2016	February 29, 2016
Equipment under a finance lease payable in equal month installments of \$84 which includes implied interest of 8.7%. The lease matures on December 16, 2019 and is secured against the equipment under finance lease with a net book value of \$2,966 (2015 - \$3,403).	\$ 2,659	\$ 3,283
Less: current portion	(740)	(754)
	\$ 1,919	\$ 2,529

Interest of \$219 (2015 - \$246) related to the finance lease has been recorded as interest expense in the condensed consolidated statements of net loss and comprehensive loss for the period ended November 30, 2016.

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9. Finance lease obligation - continued

Future minimum lease payments related to obligations under finance lease are as follows:

2017	\$ 927
2018	1,011
2019	1,011
2020	<u>84</u>
	3,033
Less: implied interest	<u>(374)</u>
	2,659
Less: current portion	<u>(740)</u>
	<u>\$ 1,919</u>

10. Compensation of key management personnel

The remuneration of key management personnel during the year was as follows:

	<u>November 30, 2016</u>	<u>November 30, 2015</u>
Remuneration	\$ 36,341	\$ 53,284

Key management personnel of the Company include the interim CEO, the interim CFO, and Chief Operating Officer. For the last six month period ended November 30, 2016, the Company did not pay the current interim CEO or CFO. It is management's estimate that the fair value salaries would approximate \$90,000. Due to the lack of independent evidence with respect to the fair value of these services, this transaction has been recorded at the carrying amount of \$nil.

11. Share capital

(a) Authorized:

Unlimited number of Class "A" Common shares, without nominal or par value.

(b) Issued:

	<u>Number</u>	<u>Amount</u>
Total issued and outstanding, February 28, 2015 and February 29, 2016	31,230,296	\$ 2,889,969
Issued upon exercise of options	200,000	12,308
Total issued and outstanding, November 30, 2016	31,430,296	\$ 2,902,277

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11. Share capital - continued

On April 9, 2014, the Company completed a private placement of 5,290,296 Units at \$0.135 Canadian Dollars (“CAD”) per Unit for total proceeds of \$714,190 CAD. Each Unit was comprised of one common share and one-half of one common share purchase warrant exercisable at \$0.225 CAD per common share until April 9, 2015. These warrants were valued at \$0.0562 CAD per warrant for a total of \$148,676 CAD. The ascribed values of the warrants were determined using the Black-Scholes fair value pricing model based on a risk free rate of 1.06%, expected volatility of 167.9% and an expected life of one year. The total costs to complete the private placement were \$32,981, which included finder's fees in the aggregate amount of \$16,745 CAD to eligible finders who introduced subscribers to the private placement.

Warrants

	<u>Number</u>	<u>Amount</u>
Total issued and outstanding, February 28, 2015	2,645,148	\$ 2,477
Unrealized loss on share purchase warrants	-	18,486
Total issued and outstanding, February 29, 2016	2,645,148	20,963
Unrealized loss on share purchase warrants	-	9,839
Total issued and outstanding, November 30, 2016	2,645,148	\$ 30,802

Since April 9, 2014 various extensions of the warrants' expiration date have been approved by the TSV Venture Exchange with a current extension of the share purchase warrants to October 8, 2017. As the exercise price of the share purchase warrants are fixed in Canadian dollars and the functional currency of the Company is the U.S. dollar, the warrants are considered a derivative, as a variable amount of cash in the Company's functional currency will be received on exercise. At November 30, 2016, the fair value of share purchase warrants issued and outstanding with Canadian dollar exercise prices was \$30,802 (2015 - \$20,963). The share purchase warrants are re-measured at fair value at each statement of financial position date with the change in fair value recorded in net loss and comprehensive loss during the period of change. The fair value of share purchase warrants is reclassified to equity upon exercise.

(c) Options - Directors, Officers, Employees and Consultants

The Company has a stock option plan for directors, officers, employees and consultants. Stock options can be issued up to a maximum number of common shares equal to 10% of the issued and outstanding common shares of the Company. The exercise price of options granted is not less than the market price of the common shares traded and along with the vesting period, is determined by the Board of Directors. Options granted have a term of up to 5 years.

	<u>Number of Options</u>	<u>Weighted Average price (CAD)</u>
Balance, February 28, 2015	2,605,000	\$ 0.08
Granted	300,000	0.09
Forfeited	(199,999)	0.09
Exercised	(125,001)	0.05
Balance, February 29, 2016	2,580,000	\$ 0.08
Forfeited	(1,355,000)	0.09
Exercised	(200,000)	0.05
Granted	1,625,000	0.07
Balance, November 30, 2016	2,650,000	\$ 0.07

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11. Share capital - continued

During the period ended November 30, 2016, the Company recorded \$12,964 in share-based compensation expense (November 30, 2015 - \$16,639). The fair value of the options granted in the current period was estimated using the Black Scholes option-pricing model with the following assumptions:

Risk free interest rate (%)	0.5-0.8
Expected term (years)	2-5
Expected volatility (%)	135-140
Dividend per share	-
Forfeiture rate (%)	3.6

The following tables summarize information about stock options outstanding at November 30, 2016:

Options Outstanding				Options Exercisable	
Exercise Price	Number of options	Weighted Average of Remaining Contractual Life (years)	Weighted Average Exercise Price (CAD)	Number of Options	Weighted Average Exercise Price (CAD)
\$ 0.05 - 0.12	2,650,000	3.3	\$ 0.08	858,329	\$ 0.08

The following tables summarize information about stock options outstanding at February 29, 2016:

Options Outstanding				Options Exercisable	
Exercise Price	Number of options	Weighted Average of Remaining Contractual Life (years)	Weighted Average Exercise Price (CAD)	Number of Options	Weighted Average Exercise Price (CAD)
\$ 0.05 - 0.20	2,580,000	2.1	\$ 0.08	1,796,663	\$ 0.09

12. Loss per share

The basic loss per common share is calculated using net loss divided by the weighted-average number of common shares outstanding. The diluted loss per common share is calculated using net loss divided by the weighted-average number of diluted common shares outstanding.

13. Contributed surplus

	November 30, 2016	February 29, 2016
Balance, beginning of year	\$ 226,469	\$ 207,177
Share-based compensation (11(c))	12,964	19,292
Exercise of options	(4,615)	-
Balance, end of period	\$ 234,818	\$ 226,469

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14. Financial instruments

Financial instruments of the Company consist of cash, share purchase warrants, accounts receivable, accounts payable and accrued liabilities, finance lease obligation, line of credit and advances from related parties.

	November 30, 2016		February 29, 2016	
	Carrying Value	Fair Value	Carrying Value	Fair Value
At fair value through profit or loss				
Cash	\$ 66,191	\$ 66,191	\$ 108,687	\$ 108,687
Share purchase warrants	30,802	30,802	20,963	20,963
Loans and receivables				
Accounts receivable	26,016	26,016	46,860	46,860
Other liabilities				
Accounts payable and accrued liabilities	59,785	59,785	96,551	96,551
Finance lease obligation	2,659	2,659	3,283	3,283
Line of credit	40,000	40,000	-	-
Advances from related parties	1,045,522	1,045,522	1,045,522	1,045,522

The table below sets out fair value measurements using fair value hierarchy.

	Total	Level 1	Level 2	Level 3
Assets				
Cash	\$ 66,191	\$ 66,191	\$ -	\$ -
Share purchase warrants	30,802	-	30,802	-

There have been no transfers during the year between Levels 1, 2 and 3.

The carrying values of cash, accounts receivable, accounts payable and accrued liabilities approximate their fair value due to their short-term nature.

The fair value of the Company's share purchase warrants, advances from related parties, finance lease obligation and line of credit approximate their fair values due to the interest rates applied to these instruments, which approximate market interest rates.

As disclosed above, the Company holds various forms of financial instruments. The nature of these instruments and the Company's operations expose the Company to various risks. The Company manages its exposure to these risks by operating in a manner that minimizes its exposure to the extent practical. The Company does not use off statement of financial position contracts to manage these risks.

Liquidity Risk

The Company defines liquidity risk as the financial risk that the Company will encounter difficulties meeting its financial obligations. The Company's objective for managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. This risk is partially mitigated by managing the cash flow through controlling receivables and payables to vendors and related parties. At November 30, 2016, the Company had a working capital deficiency of \$1,067,080 (February 29, 2016 – \$996,126).

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14. Financial instruments – continued

Foreign currency risk

A portion of the Company's operations are located outside of the United States and, accordingly, the related financial assets and liabilities are subject to fluctuations in exchange rates.

The Company manages its exposure to foreign currency fluctuations by maintaining foreign currency bank accounts to facilitate foreign currency payables and planned expenditures. At November 30, 2016, the Company had the following balances denominated in Canadian dollars. The balances have been translated into United States currency in accordance with the Company's foreign exchange accounting policy.

	USD November 30, 2016	USD February 29, 2016
Cash	\$ 2,344	\$ 2,766
Accounts Payable	17,867	29,554

The Company operates with a U.S. dollar functional currency which gives rise to currency exchange rate risk on the Company's Canadian dollar denominated monetary assets and liabilities, such as Canadian dollar bank accounts and accounts payable, as follows:

	Impact on Net Loss
U.S. Dollar Exchange Rate – 10% increase	\$ 1,552
U.S. Dollar Exchange Rate – 10% decrease	(1,552)

Credit risk

The Company manages credit risk by dealing with financially sound customers, based on an evaluation of the customer's financial condition. For the period ended November 30, 2016, the Company was engaged in contracts with three (November 30, 2015 – one) customers in excess of 10% of revenue, which accounted for \$232,666 (November 30, 2015 - \$109,437) or 50% (November 30, 2015 – 77%) of the Company's total revenue. The maximum exposure to credit risk is the carrying value of accounts receivable. Three (February 29, 2016 - three) customers had outstanding balances in excess of 10% of accounts receivable, which accounted for \$17,934 (February 29, 2016 - \$36,488) or 69% (February 29, 2016 – 81%) of the Company's total accounts receivable balance. No allowance for doubtful accounts was recorded. The table below provides an analysis of our current and past due but not impaired accounts receivables.

	Total	Current	≤ 30 days	> 30 days ≤ 60 days	>60 days ≤ 90 days	> 90 days
November 30, 2016	\$ 26,016	\$ 19,897	\$ 4,622	\$ 105	\$ 82	\$ 1,310
February 29, 2016	46,860	42,096	4,124	640	-	-

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15. Capital Disclosures

The Company manages its capital to maintain its ability to continue as a going concern and to provide returns to shareholders and benefits to other stakeholders. The capital structure of the Company consists of cash, and equity comprised of issued capital, contributed surplus and deficit.

The Company manages its capital structure and makes adjustments to it in light of economic conditions. The Company, upon approval from its Board of Directors, will balance its overall capital structure through new share issues or by undertaking other activities as deemed appropriate under the specific circumstances.

The Company is not subject to externally imposed capital requirements and the Company's overall strategy with respect to capital risk management remains unchanged from the year ended February 29, 2016.