



**California Nanotechnologies Corp.**  
**Condensed Consolidated Financial Statements**  
For the interim three and nine months ended November 30, 2019 and 2018  
(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 three and nine months ended November 30, 2019.

## 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, 2019 and the interim condensed consolidated statements of loss, comprehensive loss, changes in equity and cash flows for the three and nine months ended November 30, 2019 and 2018 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 "Eric Eyerman"*

\_\_\_\_\_  
Eric Eyerman  
Director  
January 29, 2020

*signed "Roger Dent"*

\_\_\_\_\_  
Roger Dent  
Director  
January 29, 2020

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

As at	Note	November 30, 2019 (unaudited)	February 28, 2019 (audited)
<b>ASSETS</b>			
<b>Current assets</b>			
Cash		\$ 14,202	\$ 18,563
Accounts receivable	14	137,229	61,187
Inventory	4	30,732	30,732
Prepaid expenses and other current assets		7,079	8,094
<b>Total current assets</b>		<b>189,242</b>	118,576
Equipment	6	534,190	620,299
Intangible assets	7	24,172	34,172
<b>Total assets</b>		<b>\$ 747,604</b>	\$ 773,047
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities		\$ 156,751	\$ 141,206
Income taxes payable		800	3,200
Interest payable		68,899	42,107
Finance lease obligation – current portion	9	-	731
Bank indebtedness	8	367,022	362,547
Advances from related parties	5	1,045,522	1,045,522
<b>Total current liabilities</b>		<b>1,638,994</b>	1,595,313
Bank indebtedness	8	266,468	347,854
<b>Total liabilities</b>		<b>1,905,462</b>	1,943,167
<b>Shareholders' equity</b>			
Share capital	11	2,902,277	2,902,277
Contributed surplus	13	302,283	295,896
Deficit		(4,362,418)	(4,368,293)
<b>Total shareholders' equity</b>		<b>(1,157,858)</b>	(1,170,120)
<b>Total liabilities and shareholders' equity</b>		<b>\$ 747,604</b>	\$ 773,047

Going concern

2

“signed” Eric Everman  
CEO

“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 months ended November 30, 2019	For the nine months ended November 30, 2018	For the three months ended November 30, 2019	For the three months ended November 30, 2018
<b>Revenue</b>		\$ 656,657	\$ 588,637	\$ 235,899	\$ 230,918
<b>Cost of goods sold</b>		235,194	183,216	83,660	49,104
<b>Gross margin</b>		421,463	405,421	152,239	181,814
<b>Expenses</b>					
Advertising and promotion		22,100	14,308	6,227	5,179
Amortization and depreciation - equipment and intangible assets	6,7	96,109	93,971	32,036	31,313
Consulting		9,567	25,365	4,194	16,654
Office		28,277	21,135	10,838	7,394
Professional fees		33,777	36,001	17,116	12,827
Repairs and maintenance		259	1,971	-	1,418
Research		2,866	3,229	-	3,097
Salaries, wages and benefits		120,284	111,316	31,971	41,629
Supplies		30,181	36,305	13,604	7,131
Travel and entertainment		13,098	5,061	7,696	1,551
Share-based compensation	13	6,387	12,665	1,367	4,790
		362,905	361,327	125,049	132,983
<b>Income (loss) from operations</b>		58,558	44,094	27,190	48,831
Foreign exchange loss		(807)	(1,348)	(603)	(1,229)
Interest expense		(54,276)	(48,931)	(15,593)	(16,120)
Unrealized gain on share purchase warrants		-	11	-	-
<b>Income (loss) before income taxes</b>		3,475	(6,174)	10,994	31,482
<b>(Recovery) provision for income taxes</b>		(2,400)	800	-	-
<b>Net income (loss) and comprehensive income (loss)</b>		\$ 5,875	\$ (6,974)	\$ 10,994	\$ 31,482
<b>Loss per share - basic</b>	12	\$ nil	\$ nil	\$ nil	\$ nil
<b>- diluted</b>	12	nil	nil	nil	nil
<b>Weighted average shares outstanding - basic</b>	11	31,430,296	31,430,296	31,430,296	31,430,296
<b>- diluted</b>		31,639,728	31,430,296	31,430,296	31,430,296

**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 28, 2018		\$ 2,902,277	\$ 280,961	\$ (4,309,126)	\$ (1,125,888)
Share-based compensation	13	-	12,665	-	12,665
Net loss and comprehensive loss		-	-	(6,974)	(6,974)
Balance at November 30, 2018		\$ 2,902,277	\$ 293,626	\$ (4,316,100)	\$ (1,120,197)

	Note	Share capital	Contributed surplus	Deficit	Total
Balance at February 28, 2019		\$ 2,902,277	\$ 295,896	\$ (4,368,293)	\$ (1,170,120)
<b>Share-based compensation</b>	<b>13</b>	<b>-</b>	<b>6,387</b>	<b>-</b>	<b>6,387</b>
<b>Net loss and comprehensive loss</b>		<b>-</b>	<b>-</b>	<b>5,875</b>	<b>5,875</b>
<b>Balance at November 30, 2019</b>		<b>\$ 2,902,277</b>	<b>\$ 302,283</b>	<b>\$ (4,362,418)</b>	<b>\$ (1,157,858)</b>

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

Note	For the nine months ended November 30, 2019	For the nine months ended November 30, 2018	For the three months ended November 30, 2019	For the three months ended November 30, 2018
<b>Cash provided by (used for) the following activities</b>				
<b>Operating activities</b>				
	\$ 5,875	\$ (6,974)	\$ 10,994	\$ 31,482
	96,109	93,971	32,036	31,313
	-	(11)	-	-
	6,387	12,665	1,367	4,790
	108,371	99,651	44,397	67,585
Changes in working capital accounts				
	(76,042)	24,071	(30,462)	16,341
	-	7,193	-	-
	1,015	8,277	(2,071)	2,141
	13,145	(51,320)	(1,498)	(29,209)
	26,792	15,802	9,604	2,863
	73,281	103,674	19,970	59,721
<b>Financing activities</b>				
	(731)	(666)	(331)	(227)
	-	-	-	-
	(76,911)	(73,020)	(17,348)	(32,826)
	(77,642)	(73,686)	(17,679)	(33,053)
<b>Investing activities</b>				
	-	(20,589)	-	(3,697)
	-	(20,589)	-	(3,697)
	(4,361)	9,399	2,291	22,971
	18,563	36,192	11,911	22,620
	\$ 14,202	\$ 45,591	\$ 14,202	\$ 45,591

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**California Nanotechnologies Corp.**  
**Notes to Condensed Consolidated Financial Statements**  
**United States Dollars**  
**For the three and nine months ended November 30, 2019 and 2018**

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**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 three and nine months ended November 30, 2019 include the accounts of the Company and its wholly-owned subsidiaries. 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 900 - 517 - 10<sup>th</sup> 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 ductility. The Company's target markets are Aerospace, Defense, Automotive, Medical and Sports and Recreation. Since the most significant portion of the Company's operations 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 TSX Venture Exchange under the symbol CNO and in the United States on the OTCQB under the symbol CANOF. These condensed consolidated financial statements were authorized for issue in accordance with a resolution by the Board of Directors on January 29, 2020.

**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 income and comprehensive income for the nine months of \$5,875 (2018 – (\$6,974)). In addition, the Company has an accumulated deficit of \$4,362,418 (February 28, 2019 - \$4,368,293). 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 there from, 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 that could be material.

**3. Significant accounting policies**

The significant accounting policies of the Company are the same as those applied in the Company's annual audited consolidated financial statements for the years ended February 28, 2019 and 2018 except as noted in note 3(a). These policies have been consistently applied to each of the periods presented, unless otherwise indicated.

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) in effect at March 1, 2019. These condensed consolidated interim financial statements are unaudited and have been prepared in accordance with International Accounting Standards (“IAS”) 34 “Interim Financial Reporting”.

**California Nanotechnologies Corp.**  
**Notes to Condensed Consolidated Financial Statements**  
**United States Dollars**  
**For the three and nine months ended November 30, 2019 and 2018**

**3. Significant accounting policies – continued**

(a) New accounting policies

**IFRS 9 Financial Instruments ("IFRS 9")**

On March 1, 2018, the Company retrospectively adopted IFRS 9, as well as consequential amendments to IFRS 7 Financial Instruments: Disclosures using the modified retrospective approach. The standard supersedes earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement. On the adoption date of March 1, 2018, IFRS 9 did not result in any adjustments to the opening consolidated statement of financial position.

The following table summarizes the classification categories for the Company's financial assets and liabilities by financial statement line item under the superseded IAS 39 standard and the newly adopted IFRS 9:

	IAS 39	IAS 9
<b>Financial assets</b>		
Cash	Held for trading	FVTPL
Accounts receivable	Loans and receivables	Amortized cost
<b>Financial liabilities</b>		
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Interest payable	Other financial liabilities	Amortized cost
Bank indebtedness	Other financial liabilities	Amortized cost
Advances from related party	Other financial liabilities	Amortized cost
Share purchase warrants	FVTPL	FVTPL

IFRS 9 also introduces a new model for the measurement of impairment of financial assets based on expected credit losses which replaces the incurred losses impairment model applied under IAS 39. There were no material adjustments to the carrying value of any of the Company's financial instruments following the adoption of IFRS 9.

**IFRS 15 Revenue from Contracts with Customers ("IFRS 15")**

On March 1, 2018 the Company adopted IFRS 15 using the modified retrospective approach. The adoption of IFRS 15 did not result in any changes in the timing or amount of revenue recognized for the Company's goods and services.

(b) Recent accounting pronouncements

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 was applied by the Company on March 1, 2019 and the Company is currently quantifying the impact of the standard on its consolidated financial statements.



**California Nanotechnologies Corp.**  
**Notes to Condensed Consolidated Financial Statements**  
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**For the three and nine months ended November 30, 2019 and 2018**

**4. Inventory**

The major components of inventory are classified as follows:

	November 30, 2019	February 28, 2019
Raw materials	\$ 27,951	\$ 27,951
Finished goods	2,781	2,781
	\$ 30,732	\$ 30,732

The cost of finished goods inventories recognized as expense and included in cost of goods sold was \$28,278 (2018 - \$22,315). There were no recurring inventory write-downs included in cost of goods sold.

**5. Related party transactions**

Advances from related party are from a related entity that owns 19.1% of the Company's shares. The advances bear interest at 2% per annum through December 31, 2018, 2.89% thereafter and are due upon demand. There are no set terms for repayment and the loan is secured by all the assets of the Company. Additional security for the loan has been provided by one of the founders and a current member of the board of directors of the Company. Interest was paid in the amount of \$nil (2018 - \$nil) on the advances with accrued interest in the amount of \$204,546 (2018 - \$173,968). This related entity guaranteed the Company's long-term primary credit facility and engaged with the Company for revenue of \$nil (2018 - \$11,739) and incurred expenses of \$14,635 (2018 - \$28,353). The transactions are considered to be in the normal course of operations.

	November 30, 2019	February 28, 2019
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

**California Nanotechnologies Corp.**  
**Notes to Condensed Consolidated Financial Statements**  
**United States Dollars**

**For the three and nine months ended November 30, 2019 and 2018**

**6. Equipment**

	Nanotechnology equipment	Roof coating equipment	Totals
<b>Cost</b>			
At February 28, 2018 and 2019	\$ 1,676,790	\$ 8,520	\$ 1,685,310
Additions	20,469	-	20,469
At November 30, 2018 and November 30, 2019	<b>\$ 1,697,259</b>	<b>\$ 8,520</b>	<b>\$ 1,705,779</b>
<b>Accumulated depreciation</b>			
At February 28, 2018	\$ 964,286	\$ 8,520	\$ 972,806
Depreciation	112,674	-	112,674
At February 28, 2019	1,076,960	8,520	1,085,480
Depreciation	<b>86,109</b>	-	<b>86,109</b>
At November 30, 2019	<b>1,163,069</b>	<b>8,520</b>	<b>1,171,589</b>
<b>Net book value</b>			
At February 28, 2019	\$ 620,299	-	\$ 620,299
At November 30, 2019	<b>\$ 534,190</b>	<b>\$ -</b>	<b>\$ 534,190</b>

Nanotechnology equipment includes equipment with a cost of \$4,084 (February 28, 2019 - \$4,084) and a net book value of \$1,215 (February 28, 2019 - \$1,653) under finance lease obligation (See note 9).

**7. Intangible assets**

	Trade secrets	Use of operating rights	Customer list	Customer contract	Patent	Totals
<b>Cost</b>						
At February 28, 2018 and 2019 and November 30, 2019	<b>\$ 100,000</b>	<b>\$ 50,000</b>	<b>\$ 27,000</b>	<b>\$ 23,000</b>	<b>\$ 8,615</b>	<b>\$ 208,615</b>
<b>Accumulated amortization</b>						
At February 28, 2018	\$ 80,557	\$ 40,277	\$ 21,750	\$ 18,526	\$ -	\$ 161,110
Amortization	6,666	3,333	1,800	1,533	-	13,333
At February 28, 2019	\$ 87,224	\$ 43,610	\$ 23,550	\$ 20,059	\$ -	\$ 174,443
Amortization	<b>5,000</b>	<b>2,500</b>	<b>1,350</b>	<b>1,150</b>	-	<b>10,000</b>
At November 30, 2019	<b>\$ 92,224</b>	<b>\$ 46,110</b>	<b>\$ 24,900</b>	<b>\$ 21,209</b>	<b>\$ -</b>	<b>\$ 184,443</b>
<b>Net book value</b>						
At February 28, 2019	\$ 12,776	\$ 6,390	\$ 3,450	\$ 2,941	\$ 8,615	\$ 34,172
At November 30, 2019	<b>\$ 7,776</b>	<b>\$ 3,890</b>	<b>\$ 2,100</b>	<b>\$ 1,791</b>	<b>\$ 8,615</b>	<b>\$ 24,172</b>

**California Nanotechnologies Corp.**  
**Notes to Condensed Consolidated Financial Statements**  
**United States Dollars**  
**For the three and nine months ended November 30, 2019 and 2018**

**8. Bank indebtedness**

November 30, 2019    February 28, 2019

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 31, 2020. The Credit Agreement is secured by all the accounts, inventory, equipment, and general intangibles of the Company and guaranteed by a related party (Note 5).

\$    **250,000**                      \$    250,000

Effective February 2017, the Company increased the long-term primary credit facility up to \$800,000, adding an equipment advance line in the amount of \$550,000, bearing interest at the prime rate plus one-half of one percent (0.50%) maturing on February 23, 2023, with monthly principal payments of \$10,484 that commenced March 31, 2018 for a period of 60 months.

**383,490**                              460,401

Less: current portion

(367,022)                              (362,547)

\$    **266,468**                              \$    347,854

Interest of \$22,680 (2018 - \$21,398) related to the long-term credit facilities has been recorded as interest expense in the condensed consolidated statements of net loss and comprehensive loss for the nine months ended November 30, 2019.

Future minimum payments related to the long-term credit facilities are as follows:

2019-20	\$	386,294
2020-21		125,810
2021-22		125,810
Thereafter		<u>31,961</u>
		669,875
Less: interest		<u>(36,385)</u>
		633,490
Less: current portion		<u>(367,022)</u>
		<u>\$    266,468</u>

**California Nanotechnologies Corp.**  
**Notes to Condensed Consolidated Financial Statements**  
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**For the three and nine months ended November 30, 2019 and 2018**

**9. Finance lease obligation**

	<b>November 30, 2019</b>	February 28, 2019
Equipment under a finance lease payable in equal monthly installments of \$84 which includes interest 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 \$1,361 (February 28, 2019 - \$1,653).	\$ -	\$ 731
Less: current portion	-	(731)
	<b>\$ -</b>	<b>\$ -</b>

Interest of \$33 (2018 - \$93) related to the finance lease has been recorded as interest expense in the condensed consolidated statements of net loss and comprehensive loss for the nine months ended November 30, 2019. No finance leases were present in the prior year.

**10. Compensation of key management personnel**

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

	<u>November 30, 2019</u>	<u>November 30, 2018</u>
Remuneration	\$ 103,187	\$ 66,385

Key management personnel of the Company include the CEO and Directors.

**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, 2018 and 2019, and November 30, 2019	<b>31,430,296</b>	<b>\$ 2,902,277</b>

**California Nanotechnologies Corp.**  
**Notes to Condensed Consolidated Financial Statements**  
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**For the three and nine months ended November 30, 2019 and 2018**

**11. Share capital**

(b) Issued - 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. 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.

Since April 9, 2014 various extensions of the warrants’ expiration date have been approved by the TSV Venture Exchange with the final extension of the share purchase warrants to April 8, 2018. As the exercise price of the share purchase warrants are fixed in CAD 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 May 31, 2019, the fair value of share purchase warrants issued and outstanding with CAD exercise prices was \$nil (2018 - \$11). 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.

Warrants

	<u>Number</u>	<u>Amount</u>
Total issued and outstanding, February 28, 2018	2,645,148	\$ 11
Unrealized gain on share purchase warrants	-	(11)
Expired, April 8, 2018	<u>(2,645,148)</u>	-
Total issued and outstanding, February 28, 2019 and November 30, 2019	-	\$ -

(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, 2018	2,275,000	\$ 0.07
Granted	1,235,000	0.05
Expired	(600,000)	0.05
Forfeited	(500,000)	0.07
Balance, February 28, 2019	2,410,000	\$ 0.06
Expired	<u>(150,000)</u>	<u>0.09</u>
Balance, November 30, 2019	<u>2,260,000</u>	<u>\$ 0.06</u>

**California Nanotechnologies Corp.**  
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**11. Share capital – continued**

During the three and nine months ended November 30, 2019, the Company recorded \$6,387 in share-based compensation expense (November 30, 2018 - \$12,665). The fair value of the options granted in the three and nine months was estimated using the Black Scholes option-pricing model with the following assumptions:

Risk free interest rate (%)	0.99-1.98
Expected term (years)	2-5
Expected volatility (%)	138-201
Dividend per share	-
Forfeiture rate (%)	12.38

The following tables summarize information about stock options outstanding at November 30, 2019:

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	2,310,000	2.9	\$ 0.06	833,326	\$ 0.08

The following tables summarize information about stock options outstanding at February 28, 2019:

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	2,410,000	3.5	\$ 0.07	841,662	\$ 0.08

**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 and comprehensive loss divided by the weighted-average number of diluted common shares outstanding.

2,260,000 options were excluded in calculating the weighted-average number of diluted common shares outstanding for the nine months ended November 30, 2019 because their exercise price was greater than the annual average common share market price for the period (1,975,000 options were excluded in calculating the weighted-average number of diluted common shares outstanding for the nine months ended November 30, 2018, because the Company was in a net loss position and therefore any exercise would be anti-dilutive).

1,025,000 options were excluded in calculating the weighted-average number of diluted common shares outstanding for the three months ended November 30, 2019 because their exercise price was greater than the annual average common share market price for the period (1,975,000 options were excluded in calculating the weighted-average number of diluted common shares outstanding for the three months ended November 30, 2018, because the Company was in a net loss position and therefore any exercise would be anti-dilutive).

**California Nanotechnologies Corp.**  
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**For the three and nine months ended November 30, 2019 and 2018**

**13. Contributed surplus**

	<b>November 30, 2019</b>	February 28, 2019
Balance, beginning of year	\$ 295,896	\$ 280,961
Share-based compensation (11(c))	6,387	14,935
Balance, end of period	<b>\$ 302,283</b>	\$ 295,896

**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.

	<b>November 30, 2019</b>		February 28, 2019	
	<b>Carrying Value</b>	<b>Fair Value</b>	Carrying Value	Fair Value
<b>At FVTPL</b>				
Cash	\$ 14,202	\$ 14,202	\$ 18,563	\$ 18,563
<b>At amortized cost</b>				
Accounts receivable	137,229	137,229	61,187	61,187
Accounts payable and accrued liabilities	156,751	156,751	141,206	141,206
Interest payable	68,899	68,899	42,107	42,107
Bank indebtedness	633,490	633,490	710,401	710,401
Advances from related party	1,045,522	1,045,522	1,045,522	1,045,522

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

	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Assets</b>				
Cash	\$ 14,202	\$ 14,202	-	-

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

The carrying values of accounts receivable, accounts payable and accrued liabilities, interest payable and current portion of bank indebtedness approximate their fair value due to their short-term nature.

The fair value of the Company's long term portion of bank indebtedness and finance lease obligation approximate its fair values due to the interest rates applied to these instruments, which approximate market interest rates. The fair value of the Company's advances from related party approximate their fair values due to the amounts being due on demand.

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 make use of off statement of financial position contracts to manage these risks.

**California Nanotechnologies Corp.**  
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**14. Financial instruments - continued**

Liquidity Risk

The Company defines liquidity risk as the financial risk that the Company will encounter difficulties meeting its obligations associated with financial liabilities. 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 mitigated by managing the cash flow by controlling receivables and payables to vendors and related parties. At November 30, 2019, the Company had a working capital deficiency of \$1,449,752 (2018 – \$1,434,872) (Note 2).

The following table provides an analysis of the financial liabilities based on the remaining terms of the liabilities as at:

<b>November 30, 2019</b>	<b>≤ 1 year</b>	<b>&gt; 1 year ≤ 3 years</b>	<b>&gt; 3 year ≤ 4 years</b>	<b>&gt; 5 years</b>	<b>Total</b>
<b>Accounts payable and accrued liabilities</b>	\$ 156,751	\$ -	\$ -	\$ -	\$ 156,751
<b>Bank indebtedness</b>	<b>367,022</b>	<b>231,667</b>	<b>34,801</b>	-	<b>633,490</b>
<b>Total</b>	<b>\$ 523,773</b>	<b>\$ 231,667</b>	<b>\$ 34,801</b>	<b>\$ -</b>	<b>\$ 790,241</b>

  

February 28, 2018	≤ 1 year	> 1 year ≤ 3 years	> 3 year ≤ 4 years	> 5 years	Total
Accounts payable and accrued liabilities	\$ 143,606	\$ -	\$ -	\$ -	\$ 143,606
Finance lease obligation	731	-	-	-	731
Bank indebtedness	362,547	225,555	122,299	-	710,401
<b>Total</b>	<b>\$ 506,884</b>	<b>\$ 225,555</b>	<b>\$ 122,299</b>	<b>\$ -</b>	<b>\$ 854,738</b>

Foreign currency risk

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

The Company believes its exposure to foreign currency risk to be minimal. At November 30, 2019, the Company had the following balances denominated in CAD. The balances have been translated into United States currency in accordance with the Company's foreign exchange accounting policy.

	USD November 30, 2019	USD February 28, 2019
Cash	\$ 1,386	\$ 61
Accounts Receivable	2,079	2,930
Accounts payable and accrued liabilities	45,682	36,994

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:

	<b>Impact on Net Loss</b>
U.S. Dollar Exchange Rate – 10% increase	<b>\$ 4,221</b>
U.S. Dollar Exchange Rate – 10% decrease	<b>(4,221)</b>



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**For the three and nine months ended November 30, 2019 and 2018**

**14. Financial instruments - continued**

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 nine months ended November 30, 2019, the Company was engaged in contracts for products with three (November 30, 2018 – three) customers in excess of 10% of revenue, which accounted for \$377,674 (November 30, 2018 - \$387,053) or 58% (November 30, 2018 – 66%) of the Company's total revenue. The maximum exposure to credit risk is the carrying value of accounts receivable and cash. Two (2018 - four) customers had an outstanding balance in excess of 10% of accounts receivable, which accounted for \$99,921 (2018 - \$23,121) or 73% (2018 – 89%) 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
<b>November 30, 2019</b>	<b>\$ 137,229</b>	<b>\$ 130,059</b>	<b>\$ 7,170</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
February 28, 2019	\$ 61,187	\$ 37,977	\$ 19,448	\$ 3,762	\$ -	\$ -

As at November 30, 2019, the average expected credit loss on the Company's accounts receivable was 0% and as a result the provision for expected credit losses is \$nil.

Interest rate risk

The Company's revolving line of credit is subject to floating rates. The floating rate debt is subject to interest rate cash flow risk, as the required cash flows to service the debt will fluctuate as a result of changes in market rates. As at November 30, 2019, the increase or decrease in (loss) income before taxes for each 1% change in interest rates on floating rate debt amounts to approximately \$6,390 (2018 - \$7,270). The related disclosures regarding these debt instruments are included in Note 10 of these condensed consolidated interim financial statements.

**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 28, 2019.