

**California Nanotechnologies Corp.**  
**Consolidated Financial Statements**  
For the years ended February 28, 2017 and February 29, 2016  
(in United States Dollars)

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## Independent Auditors' Report

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To the Shareholders of California Nanotechnologies Corp.

We have audited the accompanying consolidated financial statements of California Nanotechnologies Corp. (the "Company"), which comprise the consolidated statements of financial position as at February 28, 2017 and February 29, 2016, the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of California Nanotechnologies Corp. as at February 28, 2017 and February 29, 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

### *Emphasis of Matter*

Without qualifying our opinion, we draw attention to Note 2 in the consolidated financial statements which discusses the Company's ability to continue as a going concern. 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.

June 27, 2017  
Calgary, Alberta

*MNP* LLP  
Chartered Professional Accountants

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

As at	Note	February 28, 2017	February 29, 2016
<b>ASSETS</b>			
<b>Current assets</b>			
Cash		\$ 18,257	\$ 108,687
Accounts receivable		67,356	46,860
Equipment deposit	5	64,240	-
Prepaid expenses and deposits		5,781	7,482
<b>Total current assets</b>		<b>155,634</b>	<b>163,029</b>
Equipment	5	48,455	57,487
Intangible assets	6	52,224	65,557
Other assets		6,235	6,235
<b>Total assets</b>		<b>\$ 262,548</b>	<b>\$ 292,308</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities		\$ 88,071	\$ 96,551
Income taxes payable		2,400	1,600
Interest payable		3,380	-
Finance lease obligation – current portion	8	822	754
Bank indebtedness	7	165,000	-
Advances from related parties	4	1,045,522	1,045,522
Share purchase warrants	11(b)	69,014	20,963
<b>Total current liabilities</b>		<b>1,374,209</b>	<b>1,165,390</b>
Finance lease obligation – long-term	8	1,707	2,529
<b>Total liabilities</b>		<b>1,375,916</b>	<b>1,167,919</b>
<b>Shareholders' deficit</b>			
Share capital	11	2,902,277	2,889,969
Contributed surplus	13	246,167	226,469
Deficit		(4,261,812)	(3,992,049)
<b>Total shareholders' deficit</b>		<b>(1,113,368)</b>	<b>(875,611)</b>
<b>Total liabilities and shareholders' deficit</b>		<b>\$ 262,548</b>	<b>\$ 292,308</b>
Going concern	2		

“signed” David Grant  
**Director**

“signed” Roger Dent  
**Director**

The accompanying notes are an integral part of these consolidated financial statements

**California Nanotechnologies Corp.**  
**Consolidated Statements of Loss and Comprehensive Loss**  
**United States Dollars**  
*For the years ended February 28, 2017 and February 29, 2016*

	Note	2017	2016
<b>Revenue</b>		\$ 543,534	\$ 431,763
<b>Cost of goods sold</b>		<b>236,506</b>	98,791
<b>Gross margin</b>		<b>307,028</b>	332,972
<b>Expenses</b>			
Advertising and promotion		36,257	25,253
Depreciation and amortization - equipment and intangible assets	5, 6	22,365	36,221
Consulting		36,081	3,195
Office		28,299	33,046
Professional fees		36,815	40,576
Repairs and maintenance		11,522	5,282
Research and development		23,430	38,781
Salaries, wages and benefits		252,927	280,973
Supplies		26,311	16,925
Travel and entertainment		4,284	7,849
Share-based compensation	11(c)	24,313	19,292
		<b>502,604</b>	507,393
<b>Loss from operations</b>		<b>(195,576)</b>	(174,421)
<b>Other income (expense)</b>			
Foreign exchange (loss) gain		(1,257)	845
Interest expense		(24,079)	(21,017)
Unrealized loss on share purchase warrants	11(b)	(48,051)	(18,486)
Gain on disposal of asset	5	-	43,500
<b>Loss before income taxes</b>		<b>(268,963)</b>	(169,579)
<b>Provision for income taxes</b>	9	<b>800</b>	800
<b>Net loss and comprehensive loss</b>		<b>\$ (269,763)</b>	\$ (170,379)
<b>Loss per share - basic</b>	12	<b>\$ (0.01)</b>	\$ (0.01)
<b>- diluted</b>	12	<b>(0.01)</b>	(0.01)
<b>Weighted average shares outstanding - basic</b>	12	<b>31,368,378</b>	31,230,296
<b>- diluted</b>	12	<b>31,368,378</b>	31,230,296

The accompanying notes are an integral part of these consolidated financial statements

**California Nanotechnologies Corp.**  
**Consolidated Statements of Changes in Equity**  
**United States Dollars**

*For the years ended February 28, 2017 and February 29, 2016*

	Note	Share capital	Contributed surplus	Deficit	Total
Balance at February 28, 2015		\$ 2,889,969	\$ 207,177	\$ (3,821,670)	\$ (724,524)
Share-based compensation	11(c)	-	19,292	-	19,292
Net loss and comprehensive loss		-	-	(170,379)	(170,379)
<b>Balance at February 29, 2016</b>		<b>\$ 2,889,969</b>	<b>\$ 226,469</b>	<b>\$ (3,992,049)</b>	<b>\$ (875,611)</b>
Shares issued upon option exercise	11(b)	12,308	(4,615)	-	7,693
Share-based compensation	11(c)	-	24,313	-	24,313
Net loss and comprehensive loss		-	-	(269,763)	(269,763)
<b>Balance at February 28, 2017</b>		<b>\$ 2,902,277</b>	<b>\$ 246,167</b>	<b>\$ (4,261,812)</b>	<b>\$ (1,113,368)</b>

*The accompanying notes are an integral part of these consolidated financial statements*

**California Nanotechnologies Corp.**  
**Consolidated Statements of Cash Flows**  
**United States Dollars**

*For the years ended February 28, 2017 and February 29, 2016*

	Note	2017	2016
<b>Cash provided by (used for) the following activities</b>			
<b>Operating activities</b>			
Net loss and comprehensive loss		\$ (269,763)	\$ (170,379)
Depreciation and amortization - equipment and intangible assets	5,6	22,365	36,221
Unrealized loss on share purchase warrants	11(b)	48,051	18,486
Share-based compensation	11(c)	24,313	19,292
Gain on disposal of asset	5	-	(43,500)
		<u>(175,034)</u>	<u>(139,880)</u>
Changes in working capital accounts			
Accounts receivable		(20,496)	(313)
Prepaid expenses and deposits		1,701	(175)
Income taxes payable		800	800
Accounts payable and accrued liabilities		(8,480)	6,161
Interest payable		3,380	-
<b>Net cash used for operating activities</b>		<b>(198,129)</b>	<b>(133,407)</b>
<b>Financing activities</b>			
Issue of shares upon option exercise	11(b)	7,693	-
Repayment of finance lease obligation		(754)	(691)
Advances from credit line		195,000	-
Repayments to credit line		(30,000)	-
Repayments to related parties		-	(19,151)
Advances from related parties		-	33,347
<b>Net cash provided by financing activities</b>		<b>171,939</b>	<b>13,505</b>
<b>Investing activities</b>			
Deposits for equipment	5	(64,240)	-
Proceeds from disposal of asset	5	-	43,500
<b>Net cash (used) provided by investing activities</b>		<b>(64,240)</b>	<b>43,500</b>
<b>Decrease in cash resources</b>		<b>(90,430)</b>	<b>(76,402)</b>
<b>Cash, beginning of year</b>		<b>108,687</b>	<b>185,089</b>
<b>Cash, end of year</b>		<b>\$ 18,257</b>	<b>\$ 108,687</b>

*The accompanying notes are an integral part of these consolidated financial statements*

**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 consolidated financial statements of the Company for the year ended February 28, 2017 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 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 consolidated financial statements were authorized for issue in accordance with a resolution by the Board of Directors on June 27, 2017.

**2. Going concern**

These 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 and comprehensive loss for the year of \$269,763 (2016 - \$170,379) and negative cash flows from operating activities of \$198,129 (2016 - \$133,407). In addition, the Company has an accumulated deficit of \$4,261,812 (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 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 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 consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and the International Financial Reporting Interpretations Committee (“IFRIC”) in effect at March 1, 2016. The principal accounting policies are set out below.

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

The preparation of consolidated financial statements requires management to make estimates and judgments that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. The 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:

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

For the years ended February 28, 2017 and February 29, 2016

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**3. Significant accounting policies – continued**

(a) Consolidation

The Company has consolidated the assets, liabilities, revenues and expenses of the subsidiaries after the elimination of intercompany transactions and balances. These 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 consolidated financial statements have been prepared on a going concern basis, using the historical cost convention except for share-based compensation 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.

(d) Cash

Cash includes balances with banks. Any cheques issued in excess of cash are 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 that are directly attributable to the construction of equipment are capitalized. The Company reviews the criteria for capitalization and the useful life of its equipment on an on-going basis considering changes in circumstances.

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 or 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 net loss in the 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.



**3. Significant accounting policies – continued**

(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 on the Company's consolidated statement of financial position.

(h) Intangible assets

Intangible assets are comprised of 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 may be impaired. The amortization method and period of an intangible asset is reviewed at least annually.

Patents are recorded at cost and are amortized on a straight-line basis over a period of ten years based on management's analysis of the market and competition. Patents represent accumulated costs and are not intended to reflect present or future values. The recoverability of these amounts is dependent upon future profitable operations.

(i) Impairment of non-financial assets

The Company assesses, at the end of each reporting period, whether there is an indication that an asset group may 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 of disposal ("FVLCD") and value in use ("VIU"). FVLCD 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.

**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 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 28, 2017 and February 29, 2016 there were no provisions recognized in the consolidated financial statements.

(k) Income taxes

Income tax expense for the year consists of current and deferred tax. Deferred tax is recognized in the 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 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 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 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 and comprehensive 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 OCL.

**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. 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 net loss and comprehensive loss 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 at "fair value through profit or loss" are measured at fair value with changes in fair value recognized in net loss and comprehensive loss. Financial assets classified as "available-for-sale" are measured at fair value, with changes in fair value recognized in OCL. Transaction costs related to financial assets and liabilities recorded at fair value are included in net loss and comprehensive loss when incurred. Financial assets classified as "held-to-maturity", "loans and receivables" and financial liabilities classified as "other financial liabilities" are initially recorded at fair value plus transaction costs and are subsequently measured at amortized cost using the effective interest method of amortization.

**3. Significant accounting policies – continued**

(p) Financial instruments - continued

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, bank indebtedness, 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:

- 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, except for those classified as "fair value through profit or loss," 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 and comprehensive 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 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 may 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 CGU's

For the purpose of assessing impairment of tangible and intangible assets, assets are grouped at the lowest level of separately identified cash inflows 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 FVLCD and VIU.

**3. Significant accounting policies – continued**

(q) Significant accounting estimates and judgments - continued

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.

**Estimates**

Valuation of loans and receivables

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

Share-based compensation

The Corporation uses an option pricing model to determine the fair value of share-based compensation. 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 consolidated financial statements include estimates of the useful economic life of equipment and intangible assets. 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 may be significantly different from those determined based on future operational results.

(r) New accounting policies

For the twelve months ended February 28, 2017, 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 consolidated financial statements.

**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 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 consolidated financial statements.

**4. Related party transactions**

Advances from related parties are from a related entity that owns 18% of the Company’s shares. The advances bear interest at 2% per annum and is due upon demand. There are no set terms for repayment and the loan is secured by all the assets of the Company. Interest was paid in the amount of \$17,619 (2016 - \$12,400) on the advances with accrued interest in the amount of \$140,921 (2016 – \$137,541). This related entity also engaged with the Company for revenue of \$166,456 (2016 – \$32,194) and incurred expenses of \$50,960 (2016 – \$34,058). The transactions are considered to be in the normal course of operations and are initially recognized at their fair value.

	<b>February 28, 2017</b>	February 29, 2016
Advances from related parties	<b>\$ 1,045,522</b>	\$ 1,045,522

**California Nanotechnologies Corp.**  
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**4. Related party transactions - continued**

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.

<b>Company (Jurisdiction of Incorporation/ Formation</b>	<b>Percentage of ownership by California Nanotechnologies Corp.</b>	<b>Overview</b>	<b>Market Area</b>
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 and the application of white solar reflective roof coatings.	USA

**5. Equipment**

	<b>Nanotechnology equipment</b>	<b>Roof coating equipment</b>	<b>Totals</b>
<b>Cost</b>			
At February 28, 2015	\$ 972,000	\$ 8,520	\$ 980,520
Disposals	(10,060)	-	(10,060)
At February 29, 2016 and February 28, 2017	<b>\$ 961,940</b>	<b>\$ 8,520</b>	<b>\$ 970,460</b>
<b>Accumulated depreciation</b>			
At February 28, 2015	\$ 893,312	\$ 6,833	\$ 900,145
Disposals	(10,060)	-	(10,060)
Depreciation	21,201	1,687	22,888
At February 29, 2016 Depreciation	904,453 <b>9,032</b>	8,520 -	912,973 <b>9,032</b>
At February 28, 2017	<b>\$ 913,485</b>	<b>\$ 8,520</b>	<b>\$ 922,005</b>
<b>Net book value</b>			
At February 29, 2016	\$ 57,487	-	\$ 57,487
At February 28, 2017	<b>\$ 48,455</b>	-	<b>\$ 48,455</b>

Nanotechnology equipment includes equipment with a cost of \$4,084 (2016 - \$4,084) and a net book value of \$2,820 (2016 - \$3,403) under finance lease obligation (See note 8). During the year, the Company paid an equipment deposit in the amount of \$64,240 on equipment with a value of \$642,400, with additional installments in 2017 totaling \$578,160. Delivery is scheduled for September 2017. The Company did not add or dispose of equipment (2016 – disposed of equipment with a net book value of \$nil for gross proceeds of \$43,500).

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**6. Intangible assets**

	Trade secrets	Use of operating rights	Customer list	Customer contract	Total
<b>Cost</b>					
At February 28, 2015, February 29, 2016, and February 28, 2017	\$ 100,000	\$ 50,000	\$ 27,000	\$ 23,000	\$ 200,000
<b>Accumulated amortization</b>					
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	<b>6,667</b>	<b>3,333</b>	<b>1,800</b>	<b>1,533</b>	<b>13,333</b>
At February 28, 2017	<b>\$ 73,891</b>	<b>\$ 36,943</b>	<b>\$ 19,950</b>	<b>\$ 16,992</b>	<b>\$ 147,776</b>
<b>Net book value</b>					
At February 29, 2016	\$ 32,776	\$ 16,390	\$ 8,850	\$ 7,541	\$ 65,557
At February 28, 2017	<b>\$ 26,109</b>	<b>\$ 13,057</b>	<b>\$ 7,050</b>	<b>\$ 6,008</b>	<b>\$ 52,224</b>

**7. Credit facilities**

Effective July, 2016, the Company established a commercial advance line of up to \$30,000 for operating purposes, bearing interest at 8% per annum, 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 May 31, 2018. The Credit Agreement is secured by all the accounts, inventory, equipment, and general intangibles of the Company and guaranteed by a related party.

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 28, 2023.

Less: current portion

February 28, 2017	February 29, 2016
\$ -	\$ -
<b>165,000</b>	-
-	-
<b>(165,000)</b>	-
<b>\$ -</b>	<b>\$ -</b>



**California Nanotechnologies Corp.**  
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**7. Credit facilities - continued**

Interest of \$1,547 (2016 - \$nil) related to the advance lines has been recorded as interest expense in the consolidated statements of loss and comprehensive loss for the period ended February 28, 2017.

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

2017-18	\$ 165,000
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**8. Finance lease obligation**

	<b>February 28, 2017</b>	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 \$2,820 (2016 - \$3,403).	<b>\$ 2,529</b>	\$ 3,283
Less: current portion	<u>(822)</u>	<u>(754)</u>
	<b>\$ 1,707</b>	<b>\$ 2,529</b>

Interest of \$282 (2016 - \$320) related to the finance lease has been recorded as interest expense in the consolidated statements of loss and comprehensive loss for the year ended February 28, 2017.

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

2018	\$ 1,011
2019	1,011
2020	<u>842</u>
	2,864
Less: implied interest	<u>(335)</u>
	2,529
Less: current portion	<u>(822)</u>
	<u>\$ 1,707</u>

**9. Income taxes**

	<b>27.00%</b>	26.33%
Statutory tax rate		
Income taxes recovery at the statutory rate	<b>\$ (72,620)</b>	\$ (44,861)
Share-based compensation	<b>6,565</b>	5,080
Other	<b>(12,390)</b>	(4,278)
Change in deferred tax asset not recognized	<b>79,245</b>	44,859
	<b>\$ 800</b>	<b>\$ 800</b>

The statutory tax rate increased from 26.33% to 27.00% due to an increase in the Alberta provincial tax rate on July 1, 2016.

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**9. Income taxes - continued**

Principal components of deferred tax asset (liability) are:

Deferred tax:	<b>February 28, 2017</b>	February 29, 2016
Unused tax losses carry forward - US (1)	\$ 2,101	\$ 4,388
Equipment - US	(2,101)	(4,388)
	<u>\$ -</u>	<u>\$ -</u>

Details of the unrecognized deductible temporary differences are as follows:

Deferred tax:	<b>February 28, 2017</b>	February 29, 2016
Unused tax losses carry forward - US (1)	\$ 3,572,815	\$ 3,414,247
Unused tax losses carry forward - Canada (1)	812,663	683,091
Share issuance costs	8,228	16,479
Disallowed interest - US	16,694	16,694
	<u>\$ 4,410,400</u>	<u>\$ 4,130,511</u>

(1) Consists of U.S. Federal and State tax losses in the approximate amount of \$3,573,000 expiring at various dates commencing 2025. Canadian tax losses in the approximate amount of \$813,000 expiring at varying dates commencing 2017.

**10. Compensation of Key Management Personnel**

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

	<b>February 28, 2017</b>	February 29, 2016
Remuneration including share-based payments	\$ 61,819	\$ 111,818

Key management personnel of the Company include the CEO, CFO and COO.

**11. Share capital**

(a) Authorized:

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

(b) Issued:

	<b>Number</b>	<b>Amount</b>
Total issued and outstanding, February 28, 2015 & February 29, 2016	31,230,296	2,889,969
Issued upon exercise of options	200,000	12,308
Total issued and outstanding, February 28, 2017	<u>31,430,296</u>	<u>\$ 2,902,277</u>

On June 17, 2016, 200,000 options were exercised for total proceeds of \$7,693. The fair value of the options exercised was \$0.04 per option, resulting in a total charge to share capital of \$12,308 and a charge to contributed surplus of \$4,615.

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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.

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 February 28, 2017, the fair value of share purchase warrants issued and outstanding with Canadian dollar exercise prices was \$69,014 (2016 - \$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.

Warrants

	<b>Number</b>	<b>Amount</b>
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	-	<b>48,051</b>
Total issued and outstanding, February 28, 2017	<b>2,645,148</b>	<b>\$ 69,014</b>

(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.

	<b>Number of Options</b>	<b>Weighted Average price (CAD)</b>
Balance, February 28, 2015	2,605,000	\$ 0.08
Granted	300,000	0.09
Forfeited	(199,999)	0.09
Expired	(125,001)	0.05
Balance, February 29, 2016	2,580,000	\$ 0.08
Granted	<b>1,625,000</b>	<b>0.08</b>
Exercised	<b>(200,000)</b>	<b>0.05</b>
Expired	<b>(805,000)</b>	<b>0.08</b>
Forfeited	<b>(750,000)</b>	<b>0.08</b>
Balance, February 28, 2017	<b>2,450,000</b>	<b>\$ 0.07</b>

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**11. Share capital - continued**

During the year ended February 28, 2017, the Company recorded \$24,313 in share-based compensation expense (2016 - \$19,292). The weighted average fair value of the options granted during the year was \$0.06 (2016 - \$0.05), and was estimated using the Black Scholes option-pricing model with the following assumptions:

Risk free interest rate (%)	0.56-0.87
Expected term (years)	2-5
Expected volatility (%)	138-201
Dividend per share	-
Forfeiture rate (%)	11.81

The following tables summarize information about stock options outstanding at February 28, 2017:

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	2,450,000	3.4	\$ 0.07	974,999	\$ 0.06

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 by dividing net loss and comprehensive loss 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 during the year.

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**13. Contributed surplus**

	<b>February 28, 2017</b>	February 29, 2016
Balance, beginning of year	\$ 226,469	\$ 207,177
Share-based compensation (11(c))	24,313	19,292
Exercise of options (11(b))	(4,615)	-
Balance, end of year	<u>\$ 246,167</u>	<u>\$ 226,469</u>

**14. Financial instruments**

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

	<b>February 28, 2017</b>		February 29, 2016	
	<b>Carrying Value</b>	<b>Fair Value</b>	Carrying Value	Fair Value
<b>At fair value through profit or loss</b>				
Cash	\$ 18,257	\$ 18,257	\$ 108,687	\$ 108,687
Share purchase warrants	69,014	69,014	20,963	20,963
<b>Loans and receivables</b>				
Accounts receivable	67,356	67,356	46,860	46,860
<b>Other liabilities</b>				
Accounts payable and accrued liabilities	88,071	88,071	96,551	96,551
Finance lease obligation	2,529	2,529	3,283	3,283
Bank indebtedness	165,000	165,000	-	-
Advances from related parties	<u>1,045,522</u>	<u>1,045,522</u>	<u>1,045,522</u>	<u>1,045,522</u>

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	\$ 18,257	\$ 18,257	\$ -	\$ -
Share purchase warrants	69,014	-	69,014	-

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

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

The fair value of the Company's advances from related parties and finance lease obligation 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.

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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 February 28, 2017, the Company had a working capital deficiency of \$1,218,575 (2016 – \$1,002,361).

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 manages its exposure to foreign currency fluctuations by maintaining foreign currency bank accounts and receivables to offset foreign currency payables and planned expenditures. At February 28, 2017, the Company had the following balances denominated in Canadian dollars. The balances have been translated into U.S. currency in accordance with the Company's foreign exchange accounting policy.

	<b>U.S. Dollar February 28, 2017</b>	<b>U.S. Dollar February 29, 2016</b>
Cash/(bank overdraft)	\$ (26)	\$ 2,766
Accounts payable and accrued liabilities	<b>32,744</b>	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:

	<b>Impact on Net Loss</b>
U.S. Dollar Exchange Rate – 10% increase	\$ 3,277
U.S. Dollar Exchange Rate – 10% decrease	<b>(3,277)</b>

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 year ended February 28, 2017, the Company was engaged in contracts for products with three (2016 – two) customers in excess of 10% of revenue, which accounted for \$284,246 (2016 - \$209,377) or 52% (2016 – 49%) of the Company's total revenue. The maximum exposure to credit risk is the carrying value of accounts receivable and cash. Two (2016 - three) customers had outstanding balances in excess of 10% of accounts receivable, which accounted for \$51,580 (2016 - \$36,488) or 79% (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.

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

	Total	Current	≤ 30 days	> 30 days ≤ 60 days	>60 days ≤ 90 days	> 90 days
<b>February 28, 2017</b>	<b>\$ 67,356</b>	<b>\$ 63,542</b>	<b>\$ 3,016</b>	<b>\$ 494</b>	<b>\$ -</b>	<b>\$ 304</b>
February 29, 2016	\$ 46,860	\$ 42,096	\$ 4,124	\$ 640	\$ -	\$ -

**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, 2017.