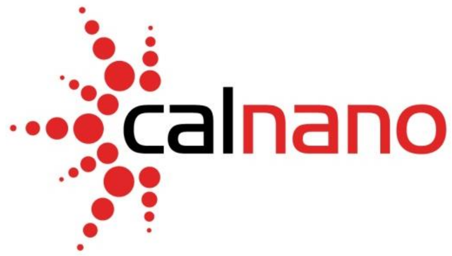

California Nanotechnologies Corp.

Condensed Consolidated Interim Financial Statements

For the three months ended May 31, 2021

(Unaudited, in United States Dollars)

Contents

Condensed Consolidated Interim Financial Statements

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

As at	Note	May 31, 2021 (unaudited)	February 28, 2021 (audited)
ASSETS			
Current assets			
Cash		**$ 55,389**	$ 19,973
Accounts receivable		**90,179**	45,044
Prepaid expenses and other current assets		**5,119**	2,513
Total current assets		**150,686**	67,530
Equipment	**6**	**362,507**	391,049
Intangible assets	**7**	**5,261**	5,405
Total assets		**$ 518,455**	$ 463,984
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		**$ 140,980**	$ 129,501
Income taxes payable		**800**	800
Interest payable		**117,760**	107,292
Bank indebtedness	**8**	**126,791**	115,770
Advances from related parties	**5**	**1,292,238**	1,295,522
Total current liabilities		**1,678,569**	1,648,885
PPP Loan		**62,600**	-
Bank indebtedness	**8**	**93,191**	123,039
Total liabilities		**1,834,360**	1,771,924
Shareholders' equity			
Share capital	**10**	**2,902,277**	2,902,277
Contributed surplus	**12**	**336,890**	335,136
Deficit		**(4,555,072)**	(4,545,353)
Total shareholders' equity		**(1,315,905)**	(1,307,940)
Total liabilities and shareholders' equity		**$ 518,455**	$ 463,984

Going concern **2**

"signed" Eric Eyerman
CEO

"signed" Roger Dent
Director

California Nanotechnologies Corp
Condensed Consolidated Interim Statements of Loss and Comprehensive Loss
United States Dollars
(Unaudited)

	Note	For the three months ended May 31, 2021	For the three months ended May 31, 2020
Revenue		**$ 206,370**	$ 157,537
Cost of goods sold		**77,996**	75,391
Gross margin		**128,373**	82,146
Expenses			
Advertising and promotion		**4,346**	6,689
Amortization and depreciation - equipment and intangible assets	**6,7**	**28,686**	32,036
Consulting		**304**	3,441
Office		**6,268**	20,808
Professional fees		**27,454**	211
Research		**-**	183
Salaries, wages and benefits		**41,456**	56,343
Supplies		**10,828**	18,589
Travel and entertainment		**1,210**	574
Share-based compensation	**10**	**1,754**	3,336
Total Expenses		**122,306**	142,210
Income/(Loss) income from operations		**6,068**	(60,064)
Other Income		**1**	13
Foreign exchange loss		**-**	(46)
Interest expense		**(15,787)**	(14,139)
Income/(Loss) before income taxes		**(9,719)**	(74,236)
(Recovery) provision for income taxes		**-**	-
Income/(Loss) & comprehensive income/ (loss)		**$ (9,719)**	$ (74,236)
Loss per share - basic	**11**	**$ nil**	$ nil
- diluted	**11**	**nil**	nil
Weighted average shares outstanding-basic		**31,430,296**	31,430,296
-diluted		**31,430,296**	31,430,296

California Nanotechnologies Corp.
Condensed Consolidated Interim Statements of Changes in Equity
United States Dollars
(Unaudited)

	Note	Share capital	Contributed surplus	Deficit	Total
Balance at February 28, 2020		$ 2,902,277	$ 323,042	$ (4,424,382)	$ (1,199,063)
Share-based compensation	12	-	3,336	-	3,336
Net loss and comprehensive loss		-	-	(74,236)	(74,236)
Balance at May 31, 2020		$ 2,902,277	$ 326,378	$ (4,498,618)	$ (1,269,963)
Balance at February 28, 2021		$ 2,902,277	$ 335,136	$ (4,545,353)	$ (1,307,940)
Share-based compensation	**12**	**-**	**1,754**	**-**	**1,754**
Net loss and comprehensive loss		**-**	**-**	**(9,719)**	**(9,719)**
Balance at May 31, 2021		**$ 2,902,277**	**$ 336,890**	**$ (4,555,072)**	**$ (1,315,905)**

California Nanotechnologies Corp.
Condensed Consolidated Interim Statements of Cash Flows
United States Dollars
(Unaudited)

	Note	For the three months ended May 31, 2021	For the three months ended May 31, 2020
Cash flows from operating activities			
Net loss for three months		$ (9,719)	$ (74,236)
Amortization and depreciation - equipment and intangible assets	**6,7**	28,686	32,036
Share-based compensation	**10**	1,754	3,336
		20,721	(38,864)
Net changes in non-cash working capital items			
Accounts receivable		**(45,135)**	(14,651)
Prepaid expenses		**(2,606)**	(2,393)
Accounts payable and accrued liabilities		**11,479**	4,423
Advances from related party		**10,468**	9,467
Net cash (used for) from operating activities		**(5,073)**	(42,018)
Cash flows from financing activities			
Proceeds from related parties		**-**	250,000
Payments to related parties		**(3,283)**	(933)
Proceeds from PPP loan		**62,600**	62,600
Payments to bank indebtedness		**(18,828)**	(267,880)
Net cash used for financing activities		**40,489**	43,787
Cash flows from investing activities			
Purchase of equipment	**6**	**-**	-
Net cash used for investing activities		**-**	-
Increase/(decrease) in cash resources		**35,416**	1,769
Cash, beginning of period		**19,973**	41,951
Cash, end of period		**$ 55,389**	$ 43,720

1. Incorporation and operations

Veritek Technologies Inc. (the "Company") 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. in connection with the reverse takeover with California Nanotechnologies Inc. The condensed consolidated interim financial statements of the Company for the three months ended May 31, 2021 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 - 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 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 ("U.S.") dollars, these condensed consolidated interim financial statements are presented in U.S. 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 interim financial statements were authorized for issue in accordance with a resolution by the Board of Directors on July 29, 2021.

2. Going concern

These condensed consolidated interim 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 three months of $9,719 (2020 – $56,089). In addition, the Company has an accumulated deficit of $4,555,072 (February 28,2021 - $4,545,353). 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 interim 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

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, 2021. The principal accounting policies are set out below.

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, 2021. These condensed consolidated interim financial statements are unaudited and have been prepared in accordance with International Accounting Standards ("IAS") 34 "Interim Financial Reporting".

3. Significant accounting policies – continued

(a) Basis of Consolidation

The Company has consolidated the assets, liabilities, revenues and expenses of its 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. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same period as the parent company, using consistent accounting policies.

(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 certain financial instruments, which are measured at fair value.

(c) Inventory

Inventory consists of raw materials and finished goods. Inventories are carried at the lower of cost and net realizable value. Cost of raw materials is determined using the first-in, first-out method. The cost of finished goods comprises raw materials, direct labor, and other direct costs (based on normal operating capacity) but excludes borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business. Inventory is reviewed on a regular basis to ensure the carrying value does not exceed net realizable value. If the carrying value exceeds net realizable value, a write-down is recognized immediately. The write-down may be reversed in a subsequent period if the circumstances which caused it no longer exist.

(d) Revenue recognition

The Company recognizes revenue at a point in time from the sale of products and services when the performance obligations have been completed, control of products transfer to the customer, and collectability is reasonably assured. The consideration for product and service sales rendered is measured at the fair value of the consideration received and allocated based on their individual selling prices. The individual selling prices are determined based on the agreed upon prices at which the Company sells in separate transactions.

Product revenue – product revenue consists mainly of the sale of spikes to customers in the sports and recreation industry. Revenue is recognized at a point in time either when the products have been shipped to, or received by the customer, depending on the terms of the contact. Product revenue for the year end February 28, 2021 was $192 (2020 - $4,337).

Service revenue – service revenue consists of heat/pressure treating products through a Spark Plasma Sintering ("SPS") machine, repair work completed on SPS machines owned by other companies and research. Service revenue is recognized at a point in time when the performance obligation has been completed and the results reported back to the customer. Service revenue for the year end May 31, 2021 was $205,746 (2020 - $150,035).

Freight revenue – Freight revenue is recognized at a point in time on contracts when the Company provides for shipping to its customer. Freight revenue for the year ended May 31, 2021 was $372 (2020 - $3,165).

The Company does not expect to have any revenue contracts where the period between the transfer of the promised goods to the customer and payment by the customer exceeds one year. As a consequence, the Company does not adjust any of the transaction prices for the time value of money. Contract modifications with the Company's customers could change the scope of the contract, the price of the contract, or both. A contract modification exists when the parties to the contract approve the modification in writing. Contract modifications are generally accounted for as part of the existing contract prospectively over the remaining term of the contract.

(e) Cash

Cash is composed of cash balances with U.S. banks.

(f) Equipment

Equipment is carried at historical cost less accumulated depreciation and any impairment losses. 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. 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 overhead or direct operating expenses. Gains or losses on disposal of an item of equipment are determined by comparing the proceeds from disposal with the carrying amount of equipment, and are recognized within other income 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.

(g) Intangible assets

Intangible assets are comprised of customer relationships, trade secrets, use of operating rights and customer contracts. Intangible assets are recorded at cost less any accumulated amortization and 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 15 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.

(h) Impairment of non-financial assets

The Company assesses, at the end of each reporting period, whether there is an indication that an asset may be impaired. If any indication of impairment exists, the Company estimates the recoverable amount of the asset. 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 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.

(i) 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 May 31, 2021 there were no provisions recognized in the consolidated financial statements.

(j) Foreign exchange

These consolidated financial statements have been presented in 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

(k) 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. For grants that are exercised, the Company records a reclassification to share capital of the non-cash stock-based compensation previously recorded to contributed surplus. At the end of each reporting period, the Company re-assesses its estimates of the number of awards that are expected to vest and recognizes the impact of the revisions in the consolidated statement of loss and comprehensive loss. 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.

(l) 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. Diluted loss per common share is calculated by adjusting the denominator for the effects of dilutive share purchase options and any other potential dilutive items. The effects of anti-dilutive potential units are ignored in calculating diluted income per common share. All share purchase options are considered antidilutive when the Company is in a loss position or the average exercise price of the options exceeds the average trading price of the Company’s common shares.

(m) 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.

(n) Financial instruments

Classification and Measurement of Financial Instruments

The Company measures its financial assets and financial liabilities at fair value on initial recognition, which is typically the transaction price unless a financial instrument contains a significant financing component. Subsequent measurement is dependent on the financial instrument's classification which in the case of financial assets, is determined by the context of the Company's business model and the contractual cash flow characteristics of the financial asset. Financial assets are classified into three categories: (1) measured at amortized cost, (2) fair value through profit and loss ("FVTPL") and (3) fair value through other comprehensive loss ("FVOCI"). Financial liabilities are subsequently measured at amortized cost, other than financial liabilities that are measured at FVTPL or designated as FVTPL where any change in fair value resulting from an entity's own credit risk is recorded as other comprehensive loss ("OCI"). The Company does not employ hedge accounting for its risk management contracts currently in place.

Amortized cost

The Company classifies its accounts receivable, bank indebtedness, accounts payable and accrued liabilities, interest payable, and advances from related party as measured at amortized cost. The contractual cash flows received from these financial assets are solely payments of principal and interest and are held within a business model whose objective is to collect the contractual cash flows. These financial assets and liabilities are initially measured at fair value plus or minus transaction costs directly attributable to the financial asset or liability. These financial assets and financial liabilities are subsequently measured at amortized cost using the effective interest method.

FVTPL

The Company classifies its cash as measured at FVTPL. Financial assets and liabilities classified as FVTPL are subsequently measured at fair value with changes in fair value charged immediately to the consolidated statements of loss and comprehensive loss. Transaction costs relating to financial instruments at FVTPL are expensed as incurred.

Derecognition of financial instruments

Financial assets are derecognized when the contractual rights to cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows from the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. A financial liability is derecognized when the obligation is discharged, cancelled or expired. When an existing financial liability is replaced by another from the same counterparty with substantially different

terms, or the terms of an existing liability are substantially modified, it is treated as a derecognition of the original liability and the recognition of a new liability. When the terms of an existing financial liability are altered, but the changes are considered non-substantial, it is accounted for as a modification to the existing financial liability. Where a liability is substantially modified it is considered to be extinguished and a gain or loss is recognized in the consolidated statements of loss and comprehensive loss based on the difference between the carrying amount of the liability derecognized and the fair value of the revised liability. Where a liability is modified in a non-substantial way, the amortized cost of the liability is remeasured based on the new cash flows and a gain or loss is recorded in the consolidated statements of loss and comprehensive loss.

(o) Impairment of financial assets

The Company recognizes loss allowances for expected credit losses ("ECLs") on its financial assets measured at amortized cost. Due to the nature of its financial assets, the Company measures loss allowances at an amount equal to expected lifetime ECLs. Lifetime ECLs are the anticipated ECLs that result from all possible default events over the expected life of a financial asset. ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive). For trade and other receivables, the Company applies the simplified approach to providing for expected losses prescribed by IFRS 9, which requires the use of the lifetime expected loss provision for all trade receivables. In estimating the expected lifetime expected loss provision, the Company considered historical Company and industry default rates as well as credit ratings of major customers. ECLs are discounted at the effective interest rate of the related financial asset. The Company does not have any financial assets that contain a financing component.

(p) Leases

Lease contracts are typically made for fixed periods and may contain a renewal option, but renewal is not considered reasonably certain. Leases are negotiated on an individual basis and each contain different terms and conditions. The Company does not have any contingent rental or sublease payments, nor any sublease income.

The Company assesses whether a contract contains a lease at the inception of a contract. A lease contract conveys the right to control the use of an identified asset for a period in exchange for consideration. Lease liabilities are recognized with corresponding right-of-use assets for all lease agreements, except for short-term leases with terms of 12 months or less and leases of low value assets, which are expensed on a straight-line basis over the lease term. Consideration in a contract is allocated to lease and non-lease components on a relative stand-alone value basis. Lease components and any associated non-lease components are accounted for as a single lease component.

Lease liabilities are initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Company’s incremental borrowing rate, unless the rate implicit in the lease is readily determinable. A single incremental borrowing rate is applied to a portfolio of leases with similar characteristics. Lease payments included in the measurement of the lease liability comprise fixed (and in-substance fixed) lease payments, less any lease incentives, variable lease payments that depend on an index or rate, and payments expected under residual value guarantees and payments relating to purchase options and renewal option periods that are reasonably certain to be exercised (or periods subject to termination options that are not reasonably certain to be exercised).

Lease liabilities are subsequently measured at amortized cost using the effective interest method. Lease liabilities are remeasured, with a corresponding adjustment to the related right-of-use assets, when there is a change in variable lease payments arising from a change in an index or rate, or when the Company changes the assessment of whether to exercise renewal or termination options.

Right-of-use assets are measured at cost, comprised of the initial measurement of the corresponding lease liabilities, lease payments made at or before the commencement date and any initial direct costs. They are subsequently depreciated on a straight-line basis and reduced by impairment losses, if any. Right-of-use assets may also be adjusted to reflect the remeasurement of related lease liabilities. The right-of-use asset is depreciated from the commencement date to the earlier of the end of the useful life of the underlying asset or the end of the lease term.

(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.

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.

Going concern
Management assessment of the Company's ability as a going concern, as the financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement o liabilities in the normal course of business.

Estimates

Expected credit losses
The Company's accounts receivables are typically short-term in nature and the Company recognizes an amount equal to the lifetime expected credit losses ("ECL"). The Company measures loss allowances based on historical experience and including forecasted economic conditions. The amount of ECLs is sensitive to changes in circumstances of forecast economic conditions

(r) Significant accounting estimates and judgments - continued

Inventory
Inventories are carried at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and any applicable variable selling expenses. Management on an annual basis reviews inventory for slow moving and obsolescence provision.

Share-based compensation and share purchase warrants
The Corporation uses an option pricing model, such as the Black-Scholes option-pricing model, to determine the fair value of share-based compensation and share purchase warrants. 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.

(s) New accounting policies
There were no new standards or amendments to existing standards that impacted the Company’s consolidated financial statements in the current year.

4. Inventory

All inventory has been determined to be obsolete and has been fully reserved as of February 28, 2021. There were no recurring inventory write-downs included in cost of goods sold. The cost of finished goods inventories recognized as expense and included in cost of goods sold was $7,979 (2020 - $29,087).

5. Related party transactions

Advances from related party are from a related entity that owns 19.1% of the Company's shares. The Company has received advances totaling $1,045,522 which bear interest at 2.89% per annum and is due on demand. There are no set terms for repayment and the loan is secured by all the assets of the Company. Total accumulated interest on the advances is $118,986 (2020 - $77,013) which includes interest expense of $33,588 incurred during the year.

On March 15, 2020, the Company's line of credit of $250,000 was called by its bank and repaid by a related party. Concurrent with such settlement, the company entered into a promissory note with the related party of $250,000 with an interest rate set at the US Prime Rate plus 1.0%. The promissory note is payable on demand and interest expense of $3,542 (2020 - $nil) was paid to the related party during the year.

The transactions are considered to be in the normal course of operations.

Significant subsidiaries:

The table below provides information relative to the Company's significant subsidiaries, including the entity's name, its jurisdiction of incorporation/formation, the percentage of securities directly or indirectly owned by the Company, and the market areas served, if applicable. The functional currency of each entity is U.S. dollars.

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. This entity is inactive.	USA

6. Equipment

	Nanotechnology equipment	Roof coating equipment	Totals
Cost			
At February 29, 2020	$ 1,697,259	$ 8,520	$ 1,705,779
Additions	-	-	-
At February 28, 2021 and May 31, 2021	$ 1,697,259	$ 8,520	$ 1,705,779
Accumulated depreciation			
At February 29, 2020	$ 1,191,772	$ 8,520	$ 1,200,292
Depreciation	114,438	-	114,438
At February 28, 2021	1,306,210	8,520	1,314,730
Depreciation	**28,542**	**-**	**28,542**
At May 31, 2021	**$ 1,334,752**	**$ 8,520**	**$ 1,343,272**
Net book value			
At February 29, 2021	$ 391,049	-	$ 391,049
At May 31, 2021	**$ 362,507**	**$ -**	**$ 362,507**

Nanotechnology equipment includes equipment with a cost of $4,084 (February 28, 2021 - $4,084) and a net book value of $342 (February 28, 2021 - $486) under finance lease obligation (See note 9).

7. Intangible assets

	Trade secrets	Use of operating rights	Customer list	Customer contract	Patent	Totals
Cost						
At February 28, 2020 and 2021 and May 31, 2021	**$ 100,000**	**$ 50,000**	**$ 27,000**	**$ 23,000**	**$ 8,615**	**$ 208,615**
Accumulated amortization						
At February 29, 2020	$ 93,891	$ 46,944	$ 25,350	$ 21,593	$ -	$ 187,778
Amortization	6,109	3,056	1,650	1,407	3,210	15,432
At February 28, 2021	$ 100,000	$ 50,000	$ 27,000	$ 23,000	$ -	$ 203,210
Amortization	**-**	**-**	**-**	**-**	**144**	**144**
At May 31, 2021	**$ 100,000**	**$ 50,000**	**$ 27,000**	**$ 23,000**	**$ 144**	**$ 203,354**
Net book value						
At February 29, 2020	$ -	$ -	$ -	$ -	$ 5,405	$ 5,405
At May 31, 2021	**$ -**	**$ -**	**$ -**	**$ -**	**$ 5,261**	**$ 5,261**

8. Bank indebtedness

	May 31, 2021	February 28, 2021
a) Effective September 2016, the Company established a 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%). The Credit Agreement was secured by all the accounts, inventory, equipment, and general intangibles of the Company and guaranteed by a related party (Note 5). During fiscal 2021, the bank called the line of credit and the related party repaid the $250,000 on the Company's behalf..	**$ -**	$ -
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, with monthly principal payments of $10,484 that commenced March 31, 2018 for a period of 60 months.	**219,982**	238,809
Less: current portion	**(126,791)**	(114,230)
	$ 93,191	$ 123,039

Interest of $2,140 (2020 - $4,624) 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 three months ended May 31, 2021.

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

2021-22	94,357
2022-23	137,255
	231,612
Less: interest	(11,630)
	219,982
Less: current portion	(126,791)
	$ 93,191

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

9. Compensation of Key Management Personnel

	May 31, 2021	May 31, 2020
Remuneration	**$ 28,173**	$ 23,077
Share-based payments	**955**	1,099
	$ 29,128	$ 24,176

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

10. Share capital

(a) Authorized:

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

(b) Issued:

	Number	**Amount**
Total issued and outstanding, February 29, 2020 and 2021, and May 31, 2021	**31,430,296**	**$ 2,902,277**

10. Share capital - continued

(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.

	Number of Options	**Weighted Average price** ***(CAD)***
Balance, February 28, 2019	2,410,000	$ 0.06
Expired	(150,000)	0.09
Balance, February 28, 2019	2,260,000	$ 0.06
Granted	**560,000**	.06
Expired	**(100,000)**	0.08
Balance, February 29, 2020, February 28, 2021 & May 31, 2021	**2,720,000**	$ 0.06

During the three months ended May 31, 2021, the Company recorded $1,754 in share-based compensation expense (2020 - $3,336). The weighted fair value of the options granted in the current three months would be estimated using the Black Scholes option-pricing model with the following assumptions:

Risk free interest rate (%)	0.28-1.98
Expected term (years)	2-5
Expected volatility (%)	119-202
Dividend per share	-
Forfeiture rate (%)	12.38

The following tables summarize information about stock options outstanding at May 31, 2021:

	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 - 0.14	**2,720,000**	**1.4**	**$ 0.06**	**1,765,000**	**$ 0.06**

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

The following tables summarize information about stock options outstanding at February 28, 2021:

	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 - 0.14	2,720,000	1.7	$ 0.06	1,765,000	$ 0.07

11. 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.

2,720,000 (May 31, 2020 – 2,260,000) options were excluded in calculating the weighted-average number of diluted common shares outstanding for the three months ended May 31, 2021 and 2020, because the Company was in a net loss position and therefore any exercise would be anti-dilutive.

12. Contributed surplus

	May 31, 2021	February 28, 2021
Balance, beginning of year	**$ 335,136**	$ 323,042
Share-based compensation (11(c))	**1,754**	12,094
Balance, end of period	**$ 336,890**	$ 335,136

13. Financial instruments

Financial instruments of the Company consist of cash, accounts receivable, accounts payable and accrued liabilities, interest payable, bank indebtedness and advances from related parties.

	May 31, 2021		February 28, 2021	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
At FVTPL				
Cash	**$ 55,389**	**$ 55,389**	$ 19,973	$ 19,973
At amortized cost				
Accounts receivable	**90,179**	**90,179**	45,044	45,044
Accounts payable and accrued liabilities	**140,980**	**140,980**	129,501	129,501
Interest payable	**117,760**	**117,760**	107,292	107,292
Bank indebtedness	**219,982**	**219,982**	238,809	238,809
Advances from related party	**1,292,238**	**1,292,238**	1,295,522	1,295,522

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

	Total	**Level 1**	**Level 2**	**Level 3**
Assets				
Cash	$ 55,389	$ 55,389	-	-

Fair value represents the price at which a financial instrument could be exchanged in an orderly market, in an arm's length transaction between knowledgeable and willing parties who are under no compulsion to act. The Company classifies the fair value of the financial instruments according to the following hierarchy based on the amount of observable inputs used to value the instrument.

Level 1 Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 Pricing inputs are other than quoted prices in active markets included in level 1. Prices in level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.

Level 3 Valuations in this level are those with inputs for the assets or liabilities that are not based on observable market date.

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, interest payable and current portion of bank indebtedness approximate their fair value due to their short-term nature.

13. Financial instruments - continued

The fair value of the Company's long-term portion of bank indebtedness 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**.**

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 May 31, 2021, the Company had a working capital deficiency of $1,527,883 (2020 – $1,486,839) (Note 2).

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

May 31, 2021	**≤ 1 year**	**> 1 year ≤ 3 years**	**> 3 year ≤ 4 years**	**> 5 years**	**Total**
Accounts payable and accrued liabilities	**$ 55,389**	**$ -**	**$ -**	**$ -**	**$ 55,389**
Bank Indebtedness	**126,790**	**93,191**	**-**	**-**	**219,981**
Advance from related party	**1,292,238**	**-**	**-**	**-**	**1,292,238**
Total	**$ 1,474,417**	**$ 93,191**	**$ -**	**$ -**	**$ 1,567,608**

May 31, 2020	≤ 1 year	> 1 year ≤ 3 years	> 3 year ≤ 4 years	> 5 years	Total
Accounts payable and accrued liabilities	$ 129,237	$ -	$ -	$ -	$ 129.237
Bank indebtedness	110,215	220,178	-	-	330,393
Advance from related party	1,376,225	-	-	-	1,376,225
Total	$ 1,615,677	$ 220,178	$ -	$ -	$ 1,835,855

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 May 31, 2021, the Company had the following balances denominated in CAD. The balances have been translated into U.S. dollars in accordance with the Company's foreign exchange accounting policy.

13. Financial instruments – continued

	U.S. Dollar May 31, 2021	U.S. Dollar February 28, 2021
Accounts receivable	**2,761**	1,884
Accounts payable and accrued liabilities	**43,243**	33,913

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	**$ 405**
U.S. Dollar Exchange Rate – 10% decrease	**(405)**

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 three months ended May 31, 2021, the Company was engaged in contracts for products with three (2020 – one) customers in excess of 10% of revenue, which accounted for $85,878 (2020 - $90,842) or 42% (2020 – 57%) of the Company's total revenue. The maximum exposure to credit risk is the carrying value of accounts receivable and cash. Two (2020 – three) customers had outstanding balances in excess of 10% of accounts receivable, which accounted for $37,150 (2020 - $34,908) or 69% (2020 73%) of the Company's total accounts receivable balance. 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
May 31, 2021	**$ 90,179**	**$ 65,488**	**$ 24,421**	**$ -**	**$ -**	**$ 270**
May 31, 2020	$ 58,253	$ 22,629	$ 29,190	$ -	$ -	$6,434

As at May 31, 2021, 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 May 31, 2021, the increase or decrease in (loss) income before taxes for each 1% change in interest rates on floating rate debt amounts to approximately $2,200 (2020 - $3,304). The related disclosures regarding these debt instruments are included in Note 8 of these condensed consolidated interim financial statements.

14. 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 for the three months ended May 31, 2021.

15. Subsequent events

The Company applied for and received loan proceeds in the amount of $62,600 ("PPP Funds") and entered into a second loan agreement with Manufacturers Bank pursuant to the Paycheck Protection Program ("PPP") for the same amount in March 2021. The PPP was established as part of the Coronavirus Aid, Relief and Economic Security Act ("CARES Act") in order to enable small businesses to pay employees during the economic slowdown caused by COVID-19 by providing forgivable loans to qualifying businesses for up to 2.5 times their average monthly payroll costs. The amount borrowed by the Company under the PPP is eligible to be forgiven provided that (a) the Company uses the PPP Funds during the 24-week period after receipt thereof, and (b) the PPP Funds are only used to cover payroll costs (including benefits), rent, mortgage interest, and utility costs. Principal and interest payments on any unforgiven portion of the PPP Funds (the "PPP Loan") will be deferred for six months and will accrue interest at a fixed annual rate of 1%. Additionally, the PPP Loan balance will carry a two-year maturity date. There is no prepayment penalty on the PPP Loan.