



California Nanotechnologies Corp.
Condensed Consolidated Interim Financial Statements
For the six months ended August 31, 2022
(Unaudited, in United States Dollars)

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

As at	Note	August 31, 2022 (unaudited)	February 28, 2022 (audited)
ASSETS			
Current assets			
Cash		\$ 184,322	\$ 51,332
Accounts receivable		151,699	351,292
Prepaid expenses and other current assets		50,108	2,893
Total current assets		386,129	405,517
Equipment	6	253,267	286,566
Right-of-use asset	6	248,211	262,130
Intangible assets	7	4,543	4,831
Total assets		\$ 892,150	\$ 959,044
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		\$ 212,357	\$ 188,893
Current interest payable		-	146,593
Bank indebtedness	8	-	133,142
Current lease liability	9	19,827	18,958
Advances from related parties	5	60,000	1,295,522
Total current liabilities		292,184	1,783,108
Non-current lease liability	9	238,975	249,111
Advances from related parties	5	1,398,796	-
Total liabilities		1,929,955	2,032,219
Shareholders' equity			
Share capital	11	2,942,566	2,942,566
Contributed surplus	13	340,609	329,012
Deficit		(4,320,980)	(4,344,753)
Total shareholders' equity		(1,037,805)	(1,073,175)
Total liabilities and shareholders' equity		\$ 892,150	\$ 959,044

Going concern

2,16

"signed" Eric Eyerman
CEO

"signed" Roger Dent
Director

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

		For the six months ended August 31, 2022	For the six months ended August 31, 2021	For the three months ended August 31, 2022	For the three months ended August 31, 2021
Revenue		\$ 601,148	\$ 374,525	\$ 271,969	\$ 168,155
Cost of goods sold		191,078	135,409	87,937	57,412
Gross margin		410,070	239,116	184,032	110,743
Expenses					
Advertising and promotion		18,014	8,303	12,565	3,957
Depreciation and amortization	6,7	70,277	57,085	35,288	28,399
Consulting		810	304	810	-
Office		32,115	13,861	19,882	7,593
Professional fees		42,764	41,084	25,901	14,530
Repairs and maintenance		6,148	-	1,064	-
Salaries, wages and benefits		116,228	103,223	55,646	61,767
Supplies		35,001	22,798	19,520	11,971
Travel and entertainment		659	1,360	156	150
Share-based compensation	10	11,597	3,507	5,799	1,753
Total Expenses		333,613	251,525	176,631	130,120
Income/(Loss) income from operations		76,457	(12,409)	7,401	(19,377)
Other Income/(expense)		7,035	15,005	6,748	15,005
Foreign exchange loss		473	(2,871)	-	(2,871)
Interest expense		(59,392)	(31,858)	(40,645)	(16,071)
Income/(Loss) before income taxes		24,573	(32,133)	(26,496)	(23,314)
(Recovery) provision for income taxes		800	-	-	-
Income/(Loss) & comprehensive income/ (loss)		\$ 23,773	\$ (32,133)	\$ (26,496)	(23,314)
Loss per share - basic	11	\$ nil	\$ nil	\$ nil	\$ nil
- diluted	11	nil	nil	nil	nil
Weighted average shares outstanding-basic		31,803,750	31,430,296	31,803,750	31,430,296
-diluted		32,718,055	31,430,296	32,718,055	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 28,2021		\$ 2,902,277	\$ 335,136	\$ (4,545,353)	\$ (1,307,940)
Share-based compensation		-	10,084	-	10,084
Stock options exercised		40,289	(16,208)	-	24,081
Net loss and comprehensive loss		-	-	200,600	200,600
Balance at February 28, 2022		\$ 2,942,566	\$ 329,012	\$ (4,344,753)	\$ (1,073,175)
Share-based compensation	11	-	11,597	-	11,597
Net income and comprehensive income		-	-	23,773	23,773
Balance at August 31, 2022		\$ 2,942,566	\$ 340,609	\$ (4,320,980)	\$ (1,037,805)

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

Note	For the six months ended August 31, 2022	For the six months ended August 31, 2021
Cash flows from operating activities		
Net income/(loss)	\$ 23,773	\$ (32,133)
Adjustments for:		
Depreciation and amortization	6,7 70,276	57,085
Interest expense	9 11,733	3,507
Share-based compensation	11 11,597	
	117,379	28,459
Net changes in non-cash working capital items		
Accounts receivable	199,592	(13,791)
Inventory	-	(82)
Prepaid expenses	(47,215)	(2,621)
Accounts payable and accrued liabilities	22,865	(25,057)
Advances from related party	17,280	20,091
Net cash (used for) from operating activities	309,901	6,999
Cash flows from financing activities		
Proceeds from related party	-	-
Repayment of lease liability	(21,000)	-
Interest on equipment loan	(2,160)	-
Payments to related party	(1,771)	-
Proceeds from PPP loan	-	62,600
Payments to bank indebtedness	(129,208)	(56,974)
Net cash used for financing activities	(154,139)	5,626
Cash flows from investing activities		
Purchase of equipment	6 (22,772)	(7,721)
Net cash used for investing activities	(22,772)	(7,721)
Increase/(decrease) in cash resources	132,990	4,904
Cash, beginning of period	51,332	19,973
Cash, end of period	\$ 184,322	\$ 24,877

California Nanotechnologies Corp.
Notes to Condensed Consolidated Interim Financial Statements
United States Dollars
For the six and six months ended August 31, 2022

1. Veritek Technologies Inc. (“Veritek”) was incorporated under the laws of the Province of Alberta on May 19, 2002. On February 1, 2007, Veritek 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 six months ended August 31, 2022 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 consolidated 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 U.S. 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 October 28, 2022.

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 income and comprehensive income for the six months ended of \$23,773 (net loss and comprehensive loss 2021 - \$32,133). In addition, the Company has an accumulated deficit of \$4,320,980 (2021 - \$4,577,486) and a working capital of \$93,945 (deficiency in 2021 – \$1,558,139). 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. Going concern is also dependent on equity investment and borrowings sufficient to meet current and future obligations and/or restructure of the existing debt and payables, as well as the impact from the COVID-19 pandemic on operations and the ability to generate cash flow. 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 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.

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 in the following:

California Nanotechnologies Corp.
Notes to Condensed Consolidated Interim Financial Statements
United States Dollars
For the six and six months ended August 31, 2022

3. Significant accounting policies - continued

(a) Basis of 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. 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.

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 Nanotechnolog ies 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

(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 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

California Nanotechnologies Corp.
Notes to Condensed Consolidated Interim Financial Statements
United States Dollars
For the six and six months ended August 31, 2022

3. Significant accounting policies - continued

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.

(d) Revenue recognition-continued

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 contract. Product revenue for the year end August 31, 2022 was \$1,472 (2021 - \$519).

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 six months ended August 31, 2022 was \$597,587 (2021 - \$371,289).

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 six months ended August 31, 2022 was \$2,470 (2021 - \$2,657).

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, three years for roof coating equipment, lease term (ten years) for right of use assets.

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.

California Nanotechnologies Corp.
Notes to Condensed Consolidated Interim Financial Statements
United States Dollars
For the six and six months ended August 31, 2022

3. Significant accounting policies - continued

(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.

California Nanotechnologies Corp.
Notes to Condensed Consolidated Interim Financial Statements
United States Dollars
For the six and six months ended August 31, 2022

3. Significant accounting policies – continued

(j) Income taxes

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

(j) Income taxes-continued

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.

(k) 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.

(l) 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 expire or are forfeited without being exercised, the Company records a reclassification to deficit of the non-cash stock-based compensation previously recorded to contributed surplus. 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.

California Nanotechnologies Corp.
Notes to Condensed Consolidated Interim Financial Statements
United States Dollars
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3. Significant accounting policies – continued

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.

(m) 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.

(n) 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.

(o) 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.

California Nanotechnologies Corp.
Notes to Condensed Consolidated Interim Financial Statements
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3. Significant accounting policies – continued

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.

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.

California Nanotechnologies Corp.
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3. Significant accounting policies – continued

Leases

The Company may enter into leases in the normal course of business. 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.

Leases-continued

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.

(p) 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:

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3. Significant accounting policies – continued

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.

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.

(q) 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.

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.

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3. Significant accounting policies – continued

Leases

The application of IFRS 16 requires the Company to make judgments and estimates that affect the measurement of right-of-use assets and lease liabilities. In determining the lease term, all facts and circumstances that create an economic incentive to exercise renewal options (or not exercise termination options) are considered. Assessing whether a contract includes a lease also requires judgment. Estimates are required to determine the appropriate discount rate used to measure lease liabilities.

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.

4. Inventory

The company expenses any materials used in the production process as cost of goods sold at the time of purchase. The cost of materials for the six months ended August 31, 2022 was \$19,171 (2021 - \$18,308).

5. Related party transactions

Advances from related party are from a related entity that owns 19.1% of the Company's shares. The advances bear interest at 2% per annum through December 31, 2018, 2.89% through August 31, 2022, and 7.5% thereafter. The loan is secured by all the assets of the Company. Additional security for the loan has been provided by one of the founders and a current member of the board of directors of the Company. No interest was paid during the six months ended August 31, 2021 and August 31, 2022 on the advance amount of \$904,879. Accrued interest and interest expense for the six months ended August 31, 2022 was \$297,785 (August 31, 2021 – \$263,672), and \$19,937 (2021-\$21,835) respectively. A portion of the accrued interest in the amount of \$140,643 was included in Advances to Related Party totaling \$1,295,522. Also included is the principal paid by the related party in the amount of \$250,000 on March 16, 2020. As a result of the bank calling its line of credit, the \$250,000 payment was part of the guarantee agreement on the debt instrument. Interest expense of 4.25% on the \$250,000 debt for the six months ended August 31, 2022 was \$5,312 (2021-\$6,198). This related entity had guaranteed the Company's long-term primary credit facility and had no other transactions with the Company during the six months ended August 31, 2022 (2021-nil). On August 1, 2021 the company entered into a lease agreement with the related entity. The lease has been disclosed in note 9.

On May 24, 2022, the Company entered into a demand agreement with the related party for the debt stated above. The terms of the agreement include an interest rate increase to 7.5% per annum, monthly interest payments of \$7,501.95 beginning June 1, 2022, and monthly principal repayments of \$10,000.00 commencing March 30, 2023. Payments of both interest and principal will continue until the earlier of full debt repayment or March 30, 2025.

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Future principal payments are as follows:

Maturity analysis – contractual undiscounted cash flows

Less than one year	\$ 60,000
One to three years	1,390,312
Total undiscounted payment obligations	<u>\$ 1,450,312</u>

6. Property, plant and equipment

	Nanotechnology equipment	Roof coating equipment	Right-of-use assets	Totals
Cost				
At February 28, 2021	\$ 1,697,259	\$ 8,520	\$ -	\$ 1,705,779
Additions	7,721	-	278,368	286,089
At February 28, 2022	1,704,980	8,520	278,368	1,991,868
Additions	22,772	-	-	22,772
At August 31, 2022	\$ 1,727,752	\$ 8,520	\$ 278,368	\$ 2,014,640
Accumulated depreciation				
At February 28, 2021	\$ 1,306,210	\$ 8,520	\$ -	\$ 1,314,730
Depreciation	112,204	-	16,238	128,442
At February 28, 2022	1,418,414	8,520	16,238	1,443,172
Depreciation	56,071	-	13,919	69,990
At August 31, 2022	\$ 1,474,485	\$ 8,520	\$ 30,157	\$ 1,513,162
Net book value				
At February 28, 2022	\$ 286,566	\$ -	\$ -	\$ 286,566
At August 31, 2022	\$ 253,267	\$ -	\$ 248,211	\$ 501,478

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7. Intangible assets

	Trade secrets	Use of operating rights	Customer relationships	Customer contract	Patent	Total
Cost						
At February 28, 2021 and 2022, August 31, 2021 and 2022	\$ 100,000	\$ 50,000	\$ 27,000	\$ 23,000	\$ 8,615	\$ 208,615
Accumulated amortization						
At February 28, 2021	\$ 100,000	\$ 50,000	\$ 27,000	\$ 23,000	\$ 3,210	\$ 203,210
Amortization	-	-	-	-	144	144
At August 31, 2021	\$ 100,000	\$ 50,000	\$ 27,000	\$ 23,000	\$ 3,354	\$ 203,354
At February 28, 2022	\$ 100,000	\$ 50,000	\$ 27,000	\$ 23,000	\$ 3,784	\$ 203,784
Amortization	-	-	-	-	287	287
At August 31, 2022	\$ 100,000	\$ 50,000	\$ 27,000	\$ 23,000	\$ 4,071	\$ 204,071
Net book value						
At August 31, 2021	\$ -	\$ -	\$ -	\$ -	\$ 5,118	\$ 5,118
At August 31, 2022	\$ -	\$ -	\$ -	\$ -	\$ 4,544	\$ 4,544

8. Bank indebtedness

	2022	2021
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. The Company paid the principal balance in August, 2022.		
Opening balance March 1	\$ 133,142	\$ 181,836
Repayments	(133,142)	(118,918)
Lease liability end of period	\$ -	\$ 62,918

Interest of \$5,312 (2021 - \$6,198) related to the Credit Agreement has been recorded as interest expense in the consolidated statements of net income and comprehensive income for the six months ended August 31.

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

2022-23	\$ 94,357
Less interest	(988)
	93,369
Less current portion	(93,369)
	\$ -

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9. Lease Liability

Opening Balance	\$ 268,069
Additions	-
Payments	(21,000)
Interest	11,733
Lease Liability at end of period	<u>\$ 258,802</u>
Less current portion	<u>(19,827)</u>
Long term portion	<u>\$ 238,975</u>

In 2021, the Company entered into an agreement with Omni-Lite to sub-lease a portion of the property located at 17220 Edwards Road, Cerritos, California. The property location is that of the existing operations for Cal Nano. The Company recorded a right of use asset and lease liability of \$278,368, using an incremental borrowing rate of 9%. The Company is responsible for its own maintenance and operating costs, including insurance. For the six months ended August 31, 2022, the costs totaled \$18,249 (2021 \$6,303) and are recorded in office expenses.

Maturity analysis – contractual undiscounted cash flows

Less than one year	\$ 42,000
One to ten years	332,500
Total undiscounted lease obligations	<u>\$ 374,500</u>
Unrecognized imputed interest	<u>(115,697)</u>
Total lease obligation	<u>\$ 258,803</u>

10. Compensation of key management personnel

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

	<u>August 31, 2022</u>	<u>August 31, 2021</u>
Remuneration	\$ 78,500	\$ 56,923
Share-based payments	7,166	1,912
	<u>\$ 85,666</u>	<u>\$ 58,835</u>

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

11. Share capital

(a) Authorized:

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

(b) Issued:

	<u>Number</u>	<u>Amount</u>
Total issued and outstanding, August 31, 2022	<u>31,803,750</u>	<u>\$ 2,942,566</u>

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11. 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, 2022	2,445,000	\$ 0.06
Expired	(25,000)	0.08
Granted	-	0.08
Exercised	-	0.08
Balance, August 31, 2022	2,420,000	\$ 0.06

During the six months ended August 31, 2022, the Company recorded \$11,597 in share-based compensation expense (2021 - \$3,507). The weighted average fair value of the options granted during the six months ended August 31, 2022, was estimated using the Black Scholes option-pricing model with the following assumptions:

Risk free interest rate (%)	0.53-1.98
Expected term (years)	2-5
Expected volatility (%)	119-168
Dividend per share	-
Forfeiture rate (%)	12.25

The following tables summarize information about stock options outstanding at August 31, 2022:

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	2,420,000	2.48	\$ 0.05	1,558,333	\$ 0.05

The following tables summarize information about stock options outstanding at August 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	1.8	\$ 0.06	1,626,658	\$ 0.06

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12. Earnings per share

The basic earnings per common share is calculated by dividing net income and comprehensive income 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.

533,958 options were included in calculating the weighted-average number of diluted common shares outstanding for the six months ended August 31, 2022. Because the Company was in a net loss position at August 31, 2021, 2,720,000 options were excluded, as inclusion would be anti-dilutive.

13. Contributed surplus

	<u>August 31, 2022</u>	<u>August 31, 2021</u>
Balance, beginning of year	\$ 329,012	\$ 335,136
Share-based compensation (12(c))	11,597	3,507
Balance, end of year	<u>\$ 340,609</u>	<u>\$ 338,643</u>

14. 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 party.

	<u>August 31, 2022</u>		<u>August 31, 2021</u>	
	Carrying Value	Fair Value	Carrying Value	Fair Value
At FVTPL				
Cash	\$ 184,322	\$ 184,322	\$ 24,877	\$ 24,877
At amortized cost				
Accounts receivable	151,699	151,699	58,835	58,835
Accounts payable and accrued liabilities	212,357	212,357	104,444	104,444
Interest payable	-	-	127,383	127,383
Bank indebtedness	-	-	181,836	181,836
Advances from related party	<u>1,398,796</u>	<u>1,398,796</u>	<u>1,295,522</u>	<u>1,295,522</u>

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,

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including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.

14. Financial instruments-continued

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 six months ended August 31, 2022 between Levels 1-3. 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.

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 August 31, 2022, the Company had a working capital of \$93,945 (deficiency in 2021 – \$1,558,140).

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

August 31, 2022	≤ 1 year	> 1 year ≤ 3 years	> 3 years ≤ 4 years	> 5 years	Total
Accounts payable and accrued liabilities	\$ 212,357				212,357
Lease liability	19,827	45,409	25,947	167,619	258,802
Advances from related party	60,000	1,390,312	-	-	1,450,312
Total	\$ 292,184	\$1,435,721	\$ 25,947	\$ 167,619	\$ 1,921,471
August 31, 2021	≤ 1 year	> 1 year ≤ 3 years	> 3 years ≤ 4 years	> 5 years	Total
Accounts payable and accrued liabilities	\$ 104,444	\$ -	\$ -	\$ -	\$ 104,444
Bank indebtedness	118,918	62,918	-	-	181,836
PPP loan	62,600	-	-	-	62,600
Advances from related party	1,295,522	-	-	-	1,295,522
Total	\$ 1,581,484	\$ 62,918	\$ -	\$ -	\$1,644,402

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14. Financial instruments - continued

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 August 31, 2022, 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.

	<u>U.S. Dollar</u> <u>August 31, 2022</u>	<u>U.S. Dollar</u> <u>August 31, 2021</u>
Accounts receivable	\$ 3,516	\$ 1,639
Accounts payable and accrued liabilities	22,121	19,784

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

	<u>Impact on Net</u> <u>Income</u>
U.S. Dollar Exchange Rate – 10% increase	\$ 1,860
U.S. Dollar Exchange Rate – 10% decrease	(1,860)

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 six months ended August 31, 2022, the Company was engaged in contracts for products with three (2021 – zero) customers in excess of 10% of revenue, which accounted for \$253,770 (2021 - \$0) or 38% (2021 – 0%) of the Company's total revenue. The maximum exposure to credit risk is the carrying value of accounts receivable and cash. Four (2021 - five) customer had an outstanding balance in excess of 10% of accounts receivable, which accounted for \$80,105 (2021 - \$50,395) or 71% (2021 - 86%) of the Company's total accounts receivable balance. The table below provides an analysis of the current and past due accounts receivables.

	<u>Total</u>	<u>Current</u>	<u>≤ 30 days</u>	<u>> 30 days</u> <u>≤ 60 days</u>	<u>>60 days</u> <u>≤ 90 days</u>	<u>> 90</u> <u>days</u>
August 31, 2022	\$ 151,699	\$ 106,844	\$ 8,550	\$ 7,300	\$ 15,450	\$13,555
August 31, 2021	\$ 58,835	\$ 42,203	\$ 9,960	\$ 6,400	\$ 3	\$ 269

As at August 31, 2022, 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. All amounts past due at August 31, 2022 were collected within the subsequent period.

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14. Financial instruments - continued

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 August 31, 2022, the increase or decrease in (loss) income before taxes for each 1% change in interest rates on floating rate debt amounts to approximately \$nil (2021 - \$1.818). The related disclosures regarding these debt instruments are included in Note 10 of these condensed consolidated interim financial statements.

15. Capital disclosures

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

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

The Company is not subject to externally imposed capital requirements and the Company's overall strategy with respect to capital risk management remains unchanged for the six months ended August 31, 2022.