



California Nanotechnologies Corp.
Condensed Consolidated Interim Financial Statements
For the three and nine months ended November 30, 2018
(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	November 30, 2018 (unaudited)	February 28, 2018 (audited)
ASSETS			
Current assets			
Cash		\$ 45,591	\$ 36,192
Accounts receivable	13	26,055	50,126
Inventory	4	31,891	39,084
Prepaid expenses and other current assets	4	9,143	19,920
Total current assets		112,680	145,322
Equipment	6	649,122	712,504
Intangible assets	7	28,890	38,890
Loan receivable		2,500	-
Other assets		8,615	8,615
Total assets		\$ 801,807	\$ 905,331
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		\$ 117,896	\$ 169,216
Income taxes payable		800	800
Interest payable		29,765	13,963
Finance lease obligation – current portion	9	958	897
Bank indebtedness	8	352,611	349,825
Advances from related parties	5	1,045,522	1,045,522
Share purchase warrants	10(b)	-	11
Total current liabilities		1,547,552	1,580,234
Bank indebtedness	8	374,369	450,175
Finance lease obligation – long-term	9	83	810
Total liabilities		1,922,004	2,031,219
Shareholders' equity			
Share capital	10	2,902,277	2,902,277
Contributed surplus	12	293,626	280,961
Deficit		(4,316,100)	(4,309,126)
Total shareholders' equity		(1,120,197)	(1,125,888)
Total liabilities and shareholders' equity		\$ 801,807	\$ 905,331

Going concern

2

“signed” Eric Eyerman
Interim CEO

“signed” Roger Dent
Director

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

	Note	For the nine months ended November 30, 2018	For the nine months ended November 30, 2017	For the three months ended November 30, 2018	For the three months ended November 30, 2017
Revenue		\$ 588,637	\$ 351,650	\$ 230,918	\$ 157,555
Cost of goods sold		183,216	52,159	49,104	13,910
Gross margin		405,421	299,491	181,814	143,645
Expenses					
Advertising and promotion		14,308	22,470	5,179	7,971
Amortization and depreciation - equipment and intangible assets	6,7	93,971	33,414	31,313	21,864
Consulting		25,365	23,353	16,654	5,358
Office		21,135	20,177	7,394	8,633
Professional fees		36,001	34,186	12,827	10,763
Repairs and maintenance		1,971	3,121	1,418	941
Research		3,229	17,858	3,097	358
Salaries, wages and benefits		111,316	175,120	41,629	56,141
Supplies		36,305	35,392	7,131	16,135
Travel and entertainment		5,061	10,557	1,551	3,585
Share-based compensation	12	12,665	30,860	4,790	8,658
		361,327	406,508	132,983	140,407
Income (loss) from operations		44,094	(107,017)	48,831	3,238
Foreign exchange loss		(1,348)	(542)	(1,229)	(1,114)
Interest expense		(48,931)	(32,688)	(16,120)	(14,716)
Unrealized gain on share purchase warrants		11	44,267	-	(24,747)
(Loss) income before income taxes		(6,174)	(95,980)	31,482	(37,339)
Provision for income taxes		800	800	-	-
Net (loss) income and comprehensive (loss) income		\$ (6,974)	\$ (96,780)	\$ 31,482	\$ (37,339)
Loss per share - basic	11	\$ nil	\$ (0.01)	\$ nil	\$ nil
- diluted	11	nil	(0.01)	nil	nil
Weighted average shares outstanding - basic	10	31,430,296	31,430,296	31,430,296	31,430,296
- diluted		31,430,296	31,430,296	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, 2017		\$ 2,902,277	\$ 246,167	\$ (4,261,812)	\$ (1,113,368)
Share-based compensation	12	-	30,860	-	30,860
Net loss and comprehensive loss		-	-	(96,780)	(96,780)
Balance at November 30, 2017		\$ 2,902,277	\$ 277,027	\$ (4,358,592)	\$ (1,179,288)
Balance at February 28, 2018		\$ 2,902,277	\$ 280,961	\$ (4,309,126)	\$ (1,125,888)
Share-based compensation	12	-	12,665	-	12,665
Net loss and comprehensive loss		-	-	(6,974)	(6,974)
Balance at November 30, 2018		\$ 2,902,277	\$ 293,626	\$ (4,316,100)	\$ (1,120,197)

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

	Note	For the nine months ended November 30, 2018	For the nine months ended November 30, 2017	For the three months ended November 30, 2018	For the three months ended November 30, 2017
Cash provided by (used for) the following activities					
Operating activities					
Net (loss) income		\$ (6,974)	\$ (96,780)	\$ 31,482	\$ (37,339)
Amortization and depreciation - equipment and intangible assets	6,7	93,971	33,414	31,313	21,864
Unrealized (gain) loss on share purchase warrants	10(b)	(11)	(44,267)	-	24,747
Share-based compensation	10(c)	12,665	30,860	4,790	8,658
		99,651	(76,773)	67,585	17,930
Changes in working capital accounts					
Accounts receivable		24,071	44,412	16,341	8,923
Inventory		7,193	(40,867)	-	(2,652)
Prepaid expenses and other current assets		8,277	(5,233)	2,141	4,344
Accounts payable and accrued liabilities		(51,320)	55,938	(29,209)	(5,833)
Interest payable		15,802	5,411	2,863	5,229
Net cash provided by (used for) operating activities		103,674	(17,112)	59,721	27,941
Financing activities					
Lease obligation		(666)	(610)	(227)	(208)
Proceeds from bank indebtedness	8	-	635,000	-	288,000
Payments to bank indebtedness	8	(73,020)	-	(32,826)	-
Net cash (used for) provided by financing activities		(73,686)	634,390	(33,053)	287,792
Investing activities					
Deposit on patent		-	(1,600)	-	(1,600)
Purchase of equipment		(20,589)	(620,351)	(3,697)	(333,359)
Net cash used for investing activities		(20,589)	(621,951)	(3,697)	(334,959)
Increase (decrease) in cash resources		9,399	(4,673)	22,971	(19,226)
Cash, beginning of period		36,192	18,257	22,620	32,810
Cash, end of period		\$ 45,591	\$ 13,584	\$ 45,591	\$ 13,584

California Nanotechnologies Corp.
Notes to Condensed Consolidated Interim Financial Statements
United States Dollars
For the three and nine months ended November 30, 2017

1. Incorporation and operations

Veritek Technologies Inc. was incorporated under the laws of the Province of Alberta on May 19, 2002. On February 1, 2007, the Company changed its name to California Nanotechnologies Corp. (the “Company”) in connection with the reverse takeover with California Nanotechnologies Inc. The condensed consolidated interim financial statements of the Company for the nine and three months ended November 30, 2018 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 dollars, these condensed consolidated interim financial statements are presented in United States dollars. The Company is listed for trading on the TSX Venture Exchange under the symbol CNO and in the United States on the OTCQB under the symbol CANOF. These condensed consolidated interim financial statements were authorized for issue in accordance with a resolution by the Board of Directors on December 13, 2018.

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 income loss for the nine months of \$6,974 (2017 – \$96,780). In addition, the Company has an accumulated deficit of \$4,316,100 (February 28, 2018 - \$4,309,126). 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.

3. Significant accounting policies

The significant accounting policies of the Company are the same as those applied in the Company's annual audited consolidated financial statements for the years ended February 28, 2018 and 2017 except as noted in note 3(a). These policies have been consistently applied to each of the periods presented, unless otherwise indicated.

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) in effect at March 1, 2018. These condensed consolidated interim financial statements are unaudited and have been prepared in accordance with International Accounting Standards (“IAS”) 34 “Interim Financial Reporting”.

California Nanotechnologies Corp.
Notes to Condensed Consolidated Interim Financial Statements
United States Dollars
For the three and nine months ended November 30, 2017

3. Significant accounting policies – continued

(a) New accounting policies

IFRS 9 Financial Instruments ("IFRS 9")

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

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 income ("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 income ("OCI"). The Company does not employ hedge accounting for its risk management contracts currently in place.

Amortized Cost

The Company classifies its accounts receivable, due from related parties, accounts payable and accrued liabilities, and bank indebtedness as measured at amortized cost. The contractual cash flows received from the 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 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 condensed consolidated interim statements of (loss) income and comprehensive (loss) income. The adoption of IFRS 9 has resulted in changes to the classification of some of the Company's financial assets but did not change the classification of the Company's financial liabilities. There is no difference in the measurement of these instruments under IFRS 9 due to the short-term and liquid nature of these financial assets.

FVOCI

The Company classifies its investment as measured at FVOCI. Financial assets classified as FVOCI are subsequently measured at fair value with changes in fair value charged to other comprehensive (loss) income.

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

California Nanotechnologies Corp.
Notes to Condensed Consolidated Interim Financial Statements
United States Dollars
For the three and nine months ended November 30, 2017

3. Significant accounting policies – continued

	IAS 39	IFRS 9
Financial Assets		
Cash	FVTPL	FVTPL
Accounts and loan receivable	Loans and receivables	Amortized cost
Financial Liabilities		
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Bank indebtedness	Other financial liabilities	Amortized cost
Due to related parties	Other financial liabilities	Amortized cost

Impairment of Financial Assets

IFRS 9 also introduces a new model for the measurement of impairment of financial assets based on expected credit losses which replaces the incurred losses impairment model applied under IAS 39. Under this new model, the Company's accounts receivable are considered collectible within one year or less; therefore, these financial assets are not considered to have a significant financing component and a lifetime expected credit loss ("ECL") is measured at the date of initial recognition of the accounts receivable.

The Company's financial assets are subject to the expected credit loss model under IFRS 9. For the accounts receivable, the Company applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which requires the use of the lifetime expected loss provision for all accounts receivable. In estimating the lifetime expected loss provision, the Company considered historical industry default rates as well as credit ratings of major customers. There were no material adjustments to the carrying value of any of the Company's financial instruments following the adoption of IFRS 9.

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

Revenue Recognition

On March 1, 2018 the Company adopted IFRS 15 using the modified retrospective approach. Upon adoption of IFRS 15, the Company recognizes revenue from the sale of products when the performance obligations have been completed, as custody of these products transfer to the customer, and collectability is reasonably assured. The consideration for product 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.

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.

The adoption of IFRS 15 did not result in any changes in the timing or amount of revenue recognized for the Company's goods and services.

California Nanotechnologies Corp.
Notes to Condensed Consolidated Interim Financial Statements
United States Dollars
For the three and nine months ended November 30, 2017

3. Significant accounting policies – continued

Goodwill

Goodwill represents the excess of the purchase price over the fair value of net assets acquired and liabilities assumed in a business combination. Goodwill is not amortized but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Company's cash generating unit's ("CGU") expected to benefit from the synergies of the combination. CGU's to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the CGU may be impaired. If the recoverable amount of the CGU is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the CGU. An impairment loss recognized for goodwill is not reversed in a subsequent period.

(b) Recent accounting pronouncements

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

4. Inventory

The major components of inventory are classified as follows:

	November 30, 2018	February 28, 2018
Raw materials	\$ 27,951	\$ 27,951
Finished goods	<u>3,940</u>	<u>11,133</u>
	<u>\$ 31,891</u>	<u>\$ 39,084</u>

The cost of finished goods inventories recognized as expense and included in cost of goods sold was \$22,315 (2017 - \$52,159). There were no recurring inventory write-downs included in cost of goods sold.

California Nanotechnologies Corp.
Notes to Condensed Consolidated Interim Financial Statements
United States Dollars
For the three and nine months ended November 30, 2017

5. Related party transactions

Advances from related parties are from a related entity that owns 18% of the Company's shares. The advances bear interest at 2% per annum and is due upon demand. There are no set terms for repayment and the loan is secured by all the assets of the Company. Interest was paid in the amount of \$nil (2017 - \$1,719) on the advances with accrued interest in the amount of \$173,968 (February 28, 2018 - \$149,722). This related entity also engaged with the Company for revenue of \$11,739 (2017 - \$30,213) and incurred expenses of \$28,353 (2017 - \$41,552). The transactions are considered to be in the normal course of operations and are initially recognized at their fair value.

	November 30, 2018	February 28, 2018
Advances from related parties	\$ 1,045,522	\$ 1,045,522

Significant subsidiaries:

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

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

California Nanotechnologies Corp.
Notes to Condensed Consolidated Interim Financial Statements
United States Dollars
For the three and nine months ended November 30, 2017

6. Equipment

	Nanotechnology equipment	Roof coating equipment	Totals
Cost			
At February 28, 2017	\$ 961,940	\$ 8,520	\$ 970,460
Additions	714,850	-	714,850
At February 28, 2018	1,676,790	8,520	1,685,310
Additions	20,589	-	20,589
At November 30, 2018	1,697,379	8,520	1,705,899
Accumulated depreciation			
At February 28, 2017	\$ 913,485	\$ 8,520	\$ 22,005
Depreciation	50,801	-	50,801
At February 28, 2018	964,286	8,520	972,806
Depreciation	83,971	-	83,971
At November 30, 2018	1,048,257	8,520	1,056,777
Net book value			
At February 28, 2018	\$ 712,504	-	\$ 712,504
At November 30, 2018	\$ 649,122	\$ -	\$ 649,122

Nanotechnology equipment includes equipment with a cost of \$4,084 (February 28, 2018 - \$4,084) and a net book value of \$1,799 (February 28, 2018 - \$2,236) under finance lease obligation (See note 9).

7. Intangible assets

	Trade secrets	Use of operating rights	Customer list	Customer contract	Totals
Cost					
At February 28, 2017, February 28, 2018 and November 30, 2018	\$ 100,000	\$ 50,000	\$ 27,000	\$ 23,000	\$ 200,000
Accumulated amortization					
At February 28, 2017	\$ 73,891	\$ 36,943	\$ 19,950	\$ 16,992	\$147,776
Amortization	6,666	3,334	1,800	1,534	13,334
At February 28, 2018	\$ 80,557	\$ 40,277	\$ 21,750	\$ 18,526	\$ 161,110
Amortization	5,000	2,500	1,350	1,150	10,000
At November 30, 2018	\$ 85,557	\$ 42,777	\$ 23,100	\$ 19,676	\$ 171,110
Net book value					
At February 28, 2018	\$ 19,443	\$ 9,723	\$ 5,250	\$ 4,474	\$ 38,890
At November 30, 2018	\$ 14,443	\$ 7,223	\$ 3,900	\$ 3,324	\$ 28,890

California Nanotechnologies Corp.
Notes to Condensed Consolidated Interim Financial Statements
United States Dollars
For the three and nine months ended November 30, 2017

8. Bank indebtedness

November 30, 2018 February 28, 2018

Effective September 2016, the Company established a new long-term primary credit facility (the "Credit Agreement") with total credit facilities of up to \$250,000, comprised of a commercial advance line in the amount of \$250,000, bearing interest at the prime rate plus one-half of one percent (0.50%) maturing on September 30, 2019. The Credit Agreement is secured by all the accounts, inventory, equipment, and general intangibles of the Company and guaranteed by a related party.

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

Effective February 2017, the Company increased the long-term primary credit facility up to \$800,000, adding an equipment advance line in the amount of \$550,000, bearing interest at the prime rate plus one-half of one percent (0.50%) maturing on May 31, 2023.

476,980 550,000

Less: current portion

(352,611) (165,000)

\$ **374,369** \$ 450,175

Interest of \$31,730 (2017 - \$nil) related to the long-term credit facilities has been recorded as interest expense in the condensed consolidated statements of net loss and comprehensive loss for the nine months ended November 30, 2018.

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

2018-19	\$	125,810
2019-20		375,810
2020-21		125,810
2021-22		125,810
Thereafter		<u>31,365</u>
		784,605
Less: interest		<u>(57,625)</u>
		726,980
Less: current portion		<u>(352,611)</u>
	\$	<u>374,369</u>

California Nanotechnologies Corp.
Notes to Condensed Consolidated Interim Financial Statements
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9. Finance lease obligation

	November 30, 2018	February 28, 2018
Equipment under a finance lease payable in equal monthly installments of \$84 which includes interest implied interest of 8.7%. The lease matures on December 16, 2019 and is secured against the equipment under finance lease with a net book value of \$1,799 (February 28, 2018 - \$2,236).	\$ 1,041	\$ 1,707
Less: current portion	(958)	(897)
	\$ 83	\$ 810

Interest of \$93 (2017 - \$148) related to the finance lease has been recorded as interest expense in the condensed consolidated statements of net loss and comprehensive loss for the nine months ended November 30, 2018. No finance leases were present in the prior year.

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

2018-19	\$ 1,011
2019-20	84
	1,095
Less: implied interest	(54)
	1,041
Less: current portion	(958)
	\$ 83

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 28, 2017 and 2018, and November 30, 2018	31,430,296	\$ 2,902,277

On April 9, 2014, the Company completed a private placement of 5,290,296 units at \$0.135 Canadian Dollars ("CAD") per unit for total proceeds of \$714,190 CAD. Each unit was comprised of one common share and one-half of one common share purchase warrant exercisable at \$0.225 CAD per common share until April 9, 2015. The ascribed values of the warrants were determined using the Black-Scholes fair value pricing model based on a risk free rate of 1.06%, expected volatility of 167.9% and an expected life of one year.

California Nanotechnologies Corp.
Notes to Condensed Consolidated Interim Financial Statements
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10. Share capital – continued

(b) Issued - continued:

Since April 9, 2014 various extensions of the warrants' expiration date have been approved by the TSV Venture Exchange with a current extension of the share purchase warrants to April 8, 2018. As the exercise price of the share purchase warrants are fixed in Canadian dollars and the functional currency of the Company is the U.S. dollar, the warrants are considered a derivative, as a variable amount of cash in the Company's functional currency will be received on exercise. At November 30, 2018, the fair value of share purchase warrants issued and outstanding with Canadian dollar exercise prices was \$nil (February 28, 2018 - \$11). The share purchase warrants are re-measured at fair value at each statement of financial position date with the change in fair value recorded in net income and comprehensive income during the period of change. The fair value of share purchase warrants is reclassified to equity upon exercise.

Warrants

	<u>Number</u>	<u>Amount</u>
Total issued and outstanding, February 28, 2017	2,645,148	\$ 69,014
Unrealized gain on share purchase warrants	-	(69,003)
Total issued and outstanding, February 28, 2018	2,645,148	\$ 11
Unrealized gain on share purchase warrants	-	(11)
Total issued and outstanding, November 30, 2018	2,645,148	\$ -

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

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

	<u>Number of Options</u>	<u>Weighted Average price (CAD)</u>
Balance, February 28, 2017	2,450,000	\$ 0.07
Granted	25,000	0.14
Expired	(25,000)	0.10
Forfeited	(175,000)	0.07
Balance, February 28, 2018	2,275,000	\$ 0.07
Granted	400,000	0.05
Expired	(200,000)	0.06
Forfeited	(500,000)	0.07
Balance, November 30, 2018	1,975,000	\$ 0.07

During the nine and three months ended November 30, 2018, the Company recorded \$12,665 in share-based compensation expense (November 30, 2017 - \$30,860). The fair value of the options granted in the current nine and three months was estimated using the Black Scholes option-pricing model with the following assumptions:

Risk free interest rate (%)	0.99-1.98
Expected term (years)	2-5
Expected volatility (%)	138-201
Dividend per share	-
Forfeiture rate (%)	10.11

California Nanotechnologies Corp.
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10. Share capital – continued

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

The following tables summarize information about stock options outstanding at November 30, 2018:

Options Outstanding			Options Exercisable		
Exercise Price	Number of options	Weighted Average of Remaining Contractual Life (years)	Weighted Average Exercise Price (CAD)	Number of Options	Weighted Average Exercise Price (CAD)
\$ 0.05 - 0.20	1,975,000	2.4	\$ 0.07	1,241,662	\$ 0.07

The following tables summarize information about stock options outstanding at February 28, 2018:

Options Outstanding			Options Exercisable		
Exercise Price	Number of options	Weighted Average of Remaining Contractual Life (years)	Weighted Average Exercise Price (CAD)	Number of Options	Weighted Average Exercise Price (CAD)
\$ 0.05 - 0.20	2,275,000	2.3	\$ 0.07	1,299,992	\$ 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.

1,975,000 (September 30, 2017 – 2,300,000) options were excluded in calculating the weighted-average number of diluted common shares outstanding for the period ended November 30, 2018 and 2017, because the Company was in a net loss position and therefore any exercise would be anti-dilutive.

12. Contributed surplus

	November 30, 2018	February 28, 2018
Balance, beginning of year	\$ 280,961	\$ 246,167
Share-based compensation (10(c))	12,665	34,794
Balance, end of period	\$ 293,626	\$ 280,961

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13. Financial instruments

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

	November 30, 2018		February 28, 2018	
	Carrying Value	Fair Value	Carrying Value	Fair Value
At fair value through profit or loss				
Cash	\$ 45,591	\$ 45,591	\$ 36,192	\$ 36,192
Share purchase warrants	-	-	11	11
Loans and receivables				
Accounts receivable	26,055	26,055	50,126	50,126
Loan receivable	2,500	2,500	-	-
Other liabilities				
Accounts payable and accrued liabilities	117,705	117,705	166,816	166,816
Finance lease obligation	1,041	1,041	1,707	1,707
Bank indebtedness	726,980	726,980	800,000	800,000
Advances from related parties	1,045,522	1,045,522	1,045,522	1,045,522

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

	Total	Level 1	Level 2	Level 3
Assets				
Cash	\$ 45,591	\$ 45,591	-	-

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

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

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

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

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13. Financial instruments - continued

Liquidity Risk

The Company defines liquidity risk as the financial risk that the Company will encounter difficulties meeting its financial obligations. The Company's objective for managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. This risk is partially mitigated by managing the cash flow through controlling receivables and payables to vendors and related parties. At November 30, 2018, the Company had a working capital deficiency of \$1,434,872 (February 28, 2018 – \$1,434,912).

Foreign currency risk

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

The Company manages its exposure to foreign currency fluctuations by maintaining foreign currency bank accounts to facilitate foreign currency payables and planned expenditures. At November 30, 2018, the Company had the following balances denominated in Canadian dollars. The balances have been translated into United States currency in accordance with the Company's foreign exchange accounting policy.

	USD November 30, 2018	USD February 28, 2018
Cash	\$ 47	\$ 1,581
Accounts Payable	23,742	36,947

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	\$ 2,369
U.S. Dollar Exchange Rate – 10% decrease	(2,369)

Credit risk

The Company manages credit risk by dealing with financially sound customers, based on an evaluation of the customer's financial condition. For the nine months ended November 30, 2018, the Company was engaged in contracts for products with three (November 30, 2017 – one) customers in excess of 10% of revenue, which accounted for \$387,053 (November 30, 2017 - \$139,298) or 66% (November 30, 2017 – 40%) of the Company's total revenue. The maximum exposure to credit risk is the carrying value of accounts receivable and cash. Four (2017 - four) customers had an outstanding balance in excess of 10% of accounts receivable, which accounted for \$23,121 (2017 - \$17,902) or 89% (2017 – 78%) of the Company's total accounts receivable balance. No allowance for doubtful accounts was recorded. The table below provides an analysis of our current and past due but not impaired accounts receivables.

	Total	Current	≤ 30 days	> 30 days ≤ 60 days	>60 days ≤ 90 days	> 90 days
November 30, 2018	\$ 26,055	\$ 17,006	\$ 5,968	\$ -	\$ -	\$ 3,081
February 28, 2018	\$ 50,126	\$ 43,468	\$ 5,463	\$ -	\$ 1,195	\$ -

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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 from the year ended February 28, 2018.