



**California Nanotechnologies Corp.**  
**Condensed Consolidated Interim Financial Statements**  
For the six months ended August 31, 2024 and 2023  
(Unaudited, in United States Dollars)

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## UNAUDITED INTERIM FINANCIAL STATEMENTS

In accordance with National Instrument 51-102 released by the Canada Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited condensed consolidated financial statements for the six months ended August 31, 2024 and 2023.

### NOTICE TO THE READER OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The interim financial statements of California Nanotechnologies Corp. and the accompanying interim condensed consolidated statements of financial position as at August 31, 2024 and the interim condensed consolidated statements of loss, comprehensive loss, changes in equity and cash flows for the six months ended August 31, 2024 and 2023 are the responsibility of the Company's management. These condensed consolidated financial statements have not been reviewed on behalf of the shareholders by the independent external auditors of the Company, MNP LLP.

The condensed consolidated interim financial statements have been prepared by management and include the selection of appropriate accounting principles, judgments and estimates necessary to prepare these condensed consolidated interim financial statements in accordance with IAS 34, Interim Financial Reporting as issued by the International Accounting Standards Board ("IASB").

"signed" Sebastien Goulet  
Director

"signed" Roger Dent  
Director

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

As at	Note	August 31, 2024 (Unaudited)	February 29, 2024 (Audited)
<b>ASSETS</b>			
<b>Current assets</b>			
Cash		\$ 657,500	\$ 841,352
Accounts receivable		721,214	432,982
Prepaid expenses and deposits		1,619,192	718,212
<b>Total current assets</b>		<b>2,997,906</b>	<b>1,992,546</b>
Equipment	6	426,448	155,469
Right-of-use asset	6	1,956,241	206,456
Leasehold Improvements	6	85,449	-
Intangible assets	7	3,395	3,682
<b>Total assets</b>		<b>\$ 5,462,439</b>	<b>\$ 2,358,153</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities		\$ 520,960	\$ 263,964
Deferred revenue		17,500	-
Share purchase warrants		1,486,323	741,274
Current lease liability	8	267,971	22,682
Advances from related party		590,233	-
<b>Total current liabilities</b>		<b>2,882,987</b>	<b>1,027,920</b>
Non-current lease liability	8	1,785,420	205,693
Advances from related party	5	-	978,568
<b>Total liabilities</b>		<b>4,668,407</b>	<b>2,212,181</b>
<b>Shareholders' equity</b>			
Share capital	10	3,542,586	3,343,837
Contributed surplus	12	1,100,745	685,446
Deficit		(3,842,299)	(3,883,311)
<b>Total shareholders' equity/(deficit)</b>		<b>801,032</b>	<b>145,972</b>
<b>Total liabilities and shareholders' equity</b>		<b>\$ 5,469,439</b>	<b>\$ 2,358,153</b>

Going concern 2

On behalf of the Board:

“signed” Sebastien Goulet  
**Director**

“signed” Roger Dent  
**Director**

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

**California Nanotechnologies Corp.**  
**Condensed Consolidated Statements of Income**  
**United States Dollars**  
**Unaudited**

	Note	For the six months ended August 31, 2024	For the six months ended August 31, 2023	For the three months ended August 31, 2024	For the three months ended August 31, 2023
<b>Revenue</b>		\$ 3,271,011	\$ 1,195,219	\$ 1,522,185	\$ 685,931
<b>Cost of goods sold</b>		867,269	372,119	268,116	146,554
<b>Gross profit</b>		2,403,742	823,100	1,254,069	539,377
<b>Expenses</b>					
Advertising and promotion		55,123	44,776	23,343	24,984
Depreciation and amortization	6, 7	235,015	72,604	119,469	36,438
Consulting		106,420	43,880	53,271	26,480
Office		95,319	43,587	62,558	26,574
Professional fees		72,330	46,015	34,442	26,515
Repairs and maintenance		290	2,213	-	-
Salaries, wages, and benefits		421,477	166,761	224,118	104,961
Supplies		116,289	51,784	60,075	27,698
Travel and entertainment		26,425	20,731	12,796	11,367
Share-based compensation	12	96,821	24,968	75,466	13,256
<b>Total Expenses</b>		1,225,509	517,319	665,538	298,273
<b>Income from operations</b>		1,178,233	305,781	588,531	241,104
<b>Other income (expense)</b>					
Other income		40,391	1,898	11,463	1,798
Other expense		(22)	-	(22)	-
Foreign exchange (loss)		(1,903)	(32)	(837)	(32)
Interest expense		(126,256)	(56,906)	(62,905)	(28,396)
Gain on sales of fixed assets		14,900	-	14,900	-
Realized loss-share purchase warrants	10	(318,478)	-	(318,478)	-
Unrealized loss-share purchase warrants	10	(745,049)	-	(886,878)	-
<b>-Income/(loss) before taxes</b>		41,816	250,741	(654,226)	214,474
Income tax expense		805	1,600	805	800
<b>Net income/(loss) and comprehensive loss</b>		41,011	249,141	(655,031)	213,674
<b>Income/(loss)per share - basic</b>	11	\$ nil	\$ nil	\$ nil	\$ nil
- diluted	11	nil	nil	nil	nil
<b>Weighted average shares outstanding-basic</b>	12	44,496,291	31,903,750	44,496,291	31,903,750
- diluted	12	51,847,946	33,780,413	51,847,946	33,780,413

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

**California Nanotechnologies Corp.**  
**Consolidated Statements of Changes in Shareholders' Equity/(Deficit)**  
**United States Dollars**  
**Unaudited**

	Note	Share capital	Contributed surplus	Comprehensive income/(loss)	Total
<b>Balance at February 28, 2023</b>		<b>\$ 2,942,566</b>	<b>\$ 375,274</b>	<b>\$ (4,264,989)</b>	<b>\$ (947,149)</b>
Stock options exercised	12	27,756	(16,652)		11,104
Share based compensation			24,968		24,968
Net income and comprehensive income				249,141	249,141
<b>Balance at August 31, 2023</b>		<b>\$ 2,970,322</b>	<b>\$ 383,590</b>	<b>\$ (4,015,848)</b>	<b>\$ (661,936)</b>
<b>Balance at February 28, 2024</b>		<b>\$ 3,343,837</b>	<b>\$ 685,446</b>	<b>\$ (3,883,311)</b>	<b>\$ 145,972</b>
Share-based compensation	12	-	96,821	-	96,821
Warrants exercised	12	198,749	318,478		517,227
Net income and comprehensive income		-	-	41,011	41,011
<b>Balance at August 31, 2024</b>		<b>\$ 3,542,586</b>	<b>\$ 1,100,745</b>	<b>\$ (3,842,300)</b>	<b>\$ 801,031</b>

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

**California Nanotechnologies Corp.**  
**Consolidated Statements of Cash Flows**  
**United States Dollars**  
**For the six months ended August 31, 2024 and August 31, 2023**

	Note	2024	2023
<b>Cash flows from operating activities</b>			
Net income/(loss) for the year		\$ 41,011	\$ 249,141
Adjustments for:			
Depreciation and amortization	6, 7	235,015	72,604
Interest expense, net		93,664	10,864
Realized loss on share purchase warrants	10	318,478	-
Unrealized loss on share purchase warrants	10	745,049	-
Share-based compensation	4,12	96,821	24,968
		<b>1,530,038</b>	<b>357,577</b>
Net change in non-cash working capital items			
Accounts receivable		(288,231)	(383,335)
Prepaid expenses and deposits		(900,980)	50,628
Accounts payable and accrued liabilities		274,496	(66,181)
<b>Net cash from operating activities</b>		<b>615,323</b>	<b>(41,311)</b>
<b>Cash flows used/from for financing activities</b>			
Payments to related parties		(388,335)	-
Proceeds from exercised options		-	11,105
Proceeds from exercised warrants		198,749	-
Repayment of lease liability	8	(191,297)	(21,000)
<b>Net cash used/from financing activities</b>		<b>(380,883)</b>	<b>(9,895)</b>
<b>Investing activities</b>			
Purchase of equipment & leasehold improvements	6	(418,292)	(11,456)
<b>Net cash used for investing activities</b>		<b>(418,292)</b>	<b>(11,456)</b>
<b>Increase/(Decrease) in cash</b>		<b>(183,852)</b>	<b>(62,662)</b>
<b>Cash, beginning of year</b>		<b>841,352</b>	<b>216,041</b>
<b>Cash, end of period</b>		<b>\$ 657,500</b>	<b>\$ 153,379</b>

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

**California Nanotechnologies Corp.**  
**Notes to the Condensed Consolidated Financial Statements**  
**United States Dollars**  
**For the interim six months ended August 31, 2024 and 2023**

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**1. Incorporation and operations**

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, 2024 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 110 Yonge Street, Suite 1601, Toronto, Ontario, Canada, M5C 1T4. 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 OTC Markets under the symbol CANOF. These consolidated financial statements were authorized for issue in accordance with a resolution by the Board of Directors on October 16, 2024.

**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 an accumulated deficit of \$3,842,299 and an amount of \$590,233 owing to a related party that is due on or before May 30, 2025. 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 sustain 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 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, 2024.

These condensed consolidated financial statements are unaudited and have been prepared in accordance with IAS 34, Interim Financial Reporting.

The significant accounting policies of the Company are the same as those applied in the Company's annual audited consolidated financial statements for the six months ended August 31, 2024 and August 31, 2023. These policies have been consistently applied to each of the periods presented.

**California Nanotechnologies Corp.**  
**Notes to the Condensed Consolidated Financial Statements**  
**United States Dollars**  
**For the interim six months ended August 31, 2024 and 2023**

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(a) **Estimates and judgements**

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.

(b) **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.

<b>Company (Jurisdiction of Incorporation/ Formation</b>	<b>Percentage of ownership by California Nanotechnologies Corp.</b>	<b>Overview</b>	<b>Market Area</b>
California Nanotechnologies Inc. (California, USA)	100%	Wholly-owned subsidiary of California Nanotechnologies Corp. which was formed and incorporated on February 4, 2005. It is the head office which conducts research and development, and materials processing.	USA
White Roof Solutions Inc. (California, USA)	100%	Wholly-owned subsidiary of California Nanotechnologies Inc. which was formed and incorporated on May 21, 2012. This entity is inactive.	USA

**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, 2024 was \$179,044 (2023 - \$44,623).



**California Nanotechnologies Corp.**  
**Notes to the Condensed Consolidated Financial Statements**  
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**For the interim six months ended August 31, 2024 and 2023**

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**5. Related party transactions**

- (a) Advances from related party are from a related entity that owns 16.6% (2023 – 17.1%) of the Company’s shares. Included in the advances from related party is a term loan that bears interest at 7.5% and interest is paid monthly. Previously the loan included a demand feature that was removed in September 2023. The loan is secured by all assets of the Company. The term loan balance of \$340,233 requires monthly principal payments of \$10,000 with the remainder due on or before May 30, 2025.

The Company made principal payments on the term loan during the six months ended August 31, 2024 of \$388,335 (2023 – nil). Incurred and paid interest for the six months ended \$27,280 (2023 - \$40,730).

On October 30, 2023, the Company issued 1,200,000 common shares to the related entity to settle \$131,589 of the term loan.

Also included in advances from related party is a loan in the amount of \$250,000 (2023 - \$250,000). The loan bears interest at a rate of 4.25% and interest expense incurred and paid during the year was \$5,313 (2023 - \$5,313).

- (b) The Company leases its property from the related entity. The lease has been disclosed in Note 8.
- (c) As part of the October 2023 private placement, the Company entered into a loan agreement with Eric Eyerman, CEO & Director. In exchange for 2,222,200 units that include one common share and ½ of one common share purchase warrant, the Company agreed to advance the purchase price of \$250,000 as a loan with 4% interest, compounded monthly. The principal and any unpaid interest are due by October 30, 2028. For accounting purposes, the plan is considered to be an option and the transaction has been accounted as such. Share-based compensation of \$29,673 and \$164,854 was recognized for the year ended February 29, 2024 on the shares and warrants granted, respectively. As this arrangement has been accounted for as an option, neither the loan nor the shares are considered to be outstanding until the options are exercised by repaying the loan or it expires. At August 31, 2024, the 1,111,100 warrants issued to the CEO were outstanding and exercisable.

The fair value of the shares and warrants granted, was estimated using the Black Scholes option-pricing model with the following assumptions:

	<u>Shares</u>	<u>Warrants</u>
Risk free interest rate (%)	4.11	4.65
Expected term (years)	5	2
Expected volatility (%)	151	133
Dividend per share	-	-
Forfeiture rate (%)	-	-

**California Nanotechnologies Corp.**  
**Notes to the Condensed Consolidated Financial Statements**  
**United States Dollars**  
For the interim six months ended August 31, 2024 and 2023

**6. Property, plant, and equipment**

	Nanotechnology equipment	Leasehold Improvements	Right-of-use assets	Totals
<b>Cost</b>				
At February 28, 2023	\$ 1,799,305	\$ -	\$ 278,368	\$ 2,077,673
Additions	11,456	-	-	11,456
At August 31, 2023	1,810,761	-	278,368	2,089,129
Additions	2,847	-	-	2,847
At February 29, 2024	\$ 1,813,607	\$ -	\$ 278,368	\$ 2,091,975
Additions	<b>332,843</b>	<b>85,449</b>	<b>1,922,649</b>	<b>2,333,932</b>
Disposals	<b>(588,022)</b>	-	-	<b>(588,022)</b>
<b>At August 31, 2024</b>	<b>\$ 1,558,428</b>	<b>\$ 85,449</b>	<b>\$ 2,201,017</b>	<b>\$ 3,844,894</b>
<b>Accumulated depreciation</b>				
At February 28, 2023	\$ 1,540,951	\$ -	\$ 44,075	\$ 1,585,026
Depreciation	58,398	-	13,918	72,316
At August 31, 2023	1,599,349	-	57,993	1,657,342
Depreciation	58,789	-	13,919	72,708
At February 29, 2024	1,658,138	-	71,912	1,730,050
Depreciation	61,864	-	172,864	234,728
Disposals	(588,022)	-	-	(588,022)
<b>At August 31, 2024</b>	<b>\$ 1,131,980</b>	<b>\$ -</b>	<b>\$ 244,776</b>	<b>\$ 1,376,756</b>
<b>Net book value</b>				
At August 31, 2023	\$ 211,412	\$ -	\$ 220,375	\$ 492,647
At August 31, 2024	<b>\$ 426,448</b>	<b>\$ 85,449</b>	<b>\$ 1,956,241</b>	<b>\$ 2,468,138</b>

**California Nanotechnologies Corp.**  
**Notes to the Condensed Consolidated Financial Statements**  
**United States Dollars**  
For the interim six months ended August 31, 2024 and 2023

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**7. Intangible assets**

	<b>Patents</b>
<b>Cost</b>	
At February 28, 2023, February 29, 2024, August 31, 2023 and 2024	\$ 8,615
<b>Accumulated amortization</b>	
At February 29, 2023	\$ 4,359
Amortization	143
At August 31, 2023	\$ 4,502
Amortization	431
At February 29, 2024	\$ 4,933
Amortization	287
<b>At August 31, 2024</b>	<b>\$ 5,220</b>
<b>Net book value</b>	
At August 31, 2023	\$ 4,113
<b>At August 31, 2024</b>	<b>\$ 3,395</b>

**8. Lease liability**

	<b>2024</b>	<b>2023</b>
Opening Balance	\$ 280,575	\$ 249,111
Payments	(25,800)	(21,000)
Interest	12,179	10,864
Lease Liability at end of period	\$ 266,954	\$ 238,975
Less current portion	(29,144)	(21,687)
Long term portion	\$ 237,810	\$ 217,288

In 2022, the Company entered into an agreement with a related party 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 \$377,787, 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, 2024, the costs totaled \$55,277 (2023 - \$28,925) and are recorded in office expenses.

**Maturity analysis – contractual undiscounted cash flows**

Less than one year	\$ 51,600
One to ten years	305,300
Total undiscounted lease obligations	\$ 356,900
Unrecognized imputed interest	(89,946)
Total lease obligation	\$ 266,954

**California Nanotechnologies Corp.**  
**Notes to the Condensed Consolidated Financial Statements**  
**United States Dollars**  
**For the interim six months ended August 31, 2024 and 2023**

**8. Lease liability-continued**

The Company has entered into a non-cancellable lease agreement for a new facility located in Santa Ana, CA, which commenced on March 1, 2024. The lease term is for five years with an option to extend for additional term(s). The facility will be used primarily for manufacturing, office space, and warehousing, and is expected to support the company's expanding operations and future growth. Under the terms of the lease, the Company will be obligated to make monthly lease payments of \$31,185.60, subject to annual increases of 4%. The total lease payments over the initial lease term are expected to be approximately \$2,356,411. Additionally, the Company is responsible for certain variable lease costs, including maintenance, insurance, and property taxes. The lease agreement contains customary covenants and conditions, and management does not anticipate any material impact on the Company's liquidity or financial condition. This lease commitment will be accounted for as a right-of-use asset and a corresponding lease liability on the balance sheet in accordance with ASC 842, Leases.

	<u>2024</u>
Opening Balance	\$ 1,845,249
Payments	(155,928)
Interest	80,822
Lease Liability at end of period	<u>\$ 1,770,143</u>
Less current portion	<u>(234,614)</u>
Long term portion	<u>\$ 1,535,529</u>

**Maturity analysis – contractual undiscounted cash flows**

Less than one year	\$ 381,712
One to ten years	1,881,143
Total undiscounted lease obligations	<u>\$ 2,262,855</u>
Unrecognized imputed interest	<u>(492,712)</u>
Total lease obligation	<u>\$ 1,770,143</u>

The Company has entered into a finance lease agreement for the purchase of material handling equipment, which commenced on March 11, 2024, with a lease term is of four years. This was recorded as a right of use asset and a lease liability of \$18,281. Under the terms of the lease, the Company will be obligated to make monthly lease payments of \$441.53, subject to annual interest of 7.78%.

	<u>2024</u>
Opening Balance	\$ 18,281
Payments	(2,649)
Interest	662
Lease Liability at end of period	<u>\$ 16,294</u>
Less current portion	<u>(4,213)</u>
Long term portion	<u>\$ 12,081</u>

**Maturity analysis – contractual undiscounted cash flows**

Less than one year	\$ 5,298
One to ten years	13,247
Total undiscounted lease obligations	<u>\$ 18,545</u>
Unrecognized imputed interest	<u>(2,251)</u>
Total lease obligation	<u>\$ 16,294</u>

**California Nanotechnologies Corp.**  
**Notes to the Condensed Consolidated Financial Statements**  
**United States Dollars**  
**For the interim six months ended August 31, 2024 and 2023**

**9. Compensation of key management personnel**

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

	<u>August 31, 2024</u>	<u>August 31, 2023</u>
Remuneration	\$ 234,998	\$ 114,115
Share-based payments	86,377	11,143
	<u>\$ 321,375</u>	<u>\$ 125,258</u>

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:

	<u>Number</u>	<u>Amount</u>
Total issued and outstanding, February 29, 2024	41,831,550	\$ 3,343,837
Stock issued from warrants exercised	1,105,000	198,749
Issued and outstanding, August 31, 2024	<u>42,936,550</u>	<u>\$ 3,542,586</u>

<sup>(i)</sup> On October 30, 2023, the company issued 7,777,800 shares through a private placement, at US \$0.1088 (CAD \$0.15) per share unit, for total proceeds of US \$846,499 (CAD \$1,166,667). Each share unit was comprised of one common share plus ½ of one common share purchase warrant. Each warrant is exercisable at CAD \$0.25 through October 30, 2025. The warrants were valued at US\$ 576,991 (CAD \$798,160). The warrant values were determined using the Black-Scholes fair value pricing model based on a risk-free rate of 4.65%, expected volatility of 132.65% and an expected life of two years. The total costs to complete the private placement were \$87,848, which included legal fees of US\$ 62,466, finder's fees of US\$ 16,553, and investor relations expense of US \$8,829.

Warrants:

	<u>Number</u>	<u>Amount</u>
Total issued and outstanding, February 28, 2024	3,888,900	\$ 741,274
Warrants exercised	(1,105,000)	(182,155)
Unrealized loss on share purchase warrants	-	927,204
Issued and outstanding, February 29, 2024	<u>2,783,900</u>	<u>\$1,486,325</u>

Due to the exercise price of the share purchase warrants being denominated in Canadian dollars while the Company's functional currency is the US dollar, these warrants are classified as derivatives, and their exercise will result in a variable cash amount in the Company's functional currency. As of August 31, 2024, the fair value of outstanding share purchase warrants with exercise prices in amounted to US \$1,486,325.

These share purchase warrants are re-evaluated at their fair value on each financial statement date, and any changes in fair value during the reporting period are recorded in the earnings. For the six months ending August 31, 2024, the change in fair value was US \$745,049. Upon exercise, the fair value of share purchase warrants is transferred to the equity section of the financial statements.

**California Nanotechnologies Corp.**  
**Notes to the Condensed Consolidated Financial Statements**  
**United States Dollars**  
**For the interim six months ended August 31, 2024 and 2023**

**10. Share capital-continued**

(c) Options - directors, officers, employees, and consultants

During the Annual Stockholder's Meeting held on August 23, 2023, the stockholders approved an amendment to replace the company's stock option plan with a Fixed Stock Option Plan. The amendment increased the number of shares authorized for issuance from 10% to 20% of the issued and outstanding shares of common stock.

The Company's stock option plan is for directors, officers, employees, and consultants. Stock options can be issued up to a maximum number of common shares equal to 20% 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, 2023	4,180,000	\$ 0.07
Granted	2,080,000	0.175
Forfeited	(10,000)	0.05
Exercised	(1,050,000)	0.05
<b>Balance, February 29, 2024</b>	<b>4,200,000</b>	<b>\$ 0.13</b>
Granted	1,300,000	.83
<b>Balance, August 31, 2024</b>	<b>5,500,000</b>	<b>\$ 0.29</b>

During the six months ended August 31, 2024, the Company recorded \$96,821 in share-based compensation expense (2023 - \$24,968). The weighted average fair value of the options granted during the six months ended August 31, 2024, was estimated using the Black Scholes option-pricing model with the following assumptions:

Risk free interest rate (%)	0.28-4.17
Expected term (years)	2-5
Expected volatility (%)	146-168
Dividend per share	-
Forfeiture rate (%)	1.08%-14.61%

The following tables summarize information about stock options outstanding at August 31, 2024:

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 - 0.83	5,500,000	3.5	\$ 0.29	3,456,655	\$ 0.21

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**10. Share capital-continued**

The following tables summarize information about stock options outstanding at August 31, 2023  
:

Exercise Price	Options Outstanding			Options Exercisable	
	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 - 0.175	4,960,000	3.0	\$ 0.12	1,876,663	\$ 0.06

**11. 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.

3,456,655 (2023 – 1,876,633) options and 3,895,000 warrants (2023 – nil) were included in calculating the weighted-average number of diluted common shares outstanding for the six months ended August 31, 2024.

**12. Contributed surplus**

	<u>August 31, 2024</u>	<u>August 31, 2023</u>
<b>Balance, beginning of year</b>	<b>\$ 685,446</b>	\$ 375,274
Share-based compensation (12©)	96,821	24,968
Options exercised	-	(16,652)
Warrants exercised	318,178	-
<b>Balance, end of year</b>	<b>\$ 1,100,745</b>	\$ 383,590

**13. Financial instruments**

Financial instruments of the Company consist of cash, share purchase warrants, accounts receivable, accounts payable and accrued liabilities, interest payable, and advances from related party.

	<u>August 31, 2024</u>		<u>August 31, 2023</u>	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>At FVTPL</b>				
Cash	\$ 657,500	\$ 657,500	\$ 153,379	\$ 153,379
Share purchase warrants	1,486,323	1,486,323	-	-
<b>At amortized cost</b>				
Accounts receivable	721,214	721,214	558,889	558,889
Accounts payable and accrued liabilities	520,961	520,961	338,348	338,348
Interest payable	-	-	154,634	154,634
Advances from related party	590,233	590,323	1,175,522	\$1,175,522

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

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 data.

There have been no transfers during the six months ended August 31, 2024 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.

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, 2024, the Company had a working capital \$114,919 (2023 – deficiency \$880,404).



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**13. Financial instruments-continued**

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

<b>August 31, 2024</b>	<b>≤ 1 year</b>	<b>&gt; 1 year ≤ 3 years</b>	<b>&gt; 3 years ≤ 4 years</b>	<b>&gt; 5 years</b>	<b>Total</b>
Accounts payable and accrued liabilities	\$ 520,960	\$ -	\$ -	\$ -	\$ 520,960
Lease liability	267,971	620,938	811,358	353,124	2,053,391
Advances from related party	590,233	-	-	-	590,233
<b>Total</b>	<b>\$1,379,164</b>	<b>\$ 620,938</b>	<b>\$ 811,358</b>	<b>\$ 353,124</b>	<b>\$ 3,164,584</b>

August 31, 2023	≤ 1 year	> 1 year ≤ 3 years	> 3 year ≤ 4 years	> 5 years	Total
Accounts payable and accrued liabilities	\$ 222,086	\$ -	\$ -	\$ -	\$ 222,086
Deferred revenue	116,262	-	-	-	116,262
Lease Liability	21,687	49,669	28,381	139,238	238,975
Advances from related party	50,000	1,125,522	-	-	1,175,522
<b>Total</b>	<b>\$ 410,035</b>	<b>\$ 1,175,191</b>	<b>\$ 28,381</b>	<b>\$ 139,238</b>	<b>\$ 1,752,845</b>

Foreign currency risk

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

The Company believes its exposure to foreign currency risk to be minimal. At August 31, 2024, 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.

	<b>U.S. Dollar August 31, 2024</b>	U.S. Dollar August 31, 2023
Accounts receivable	<b>\$ 6,014</b>	\$ 5,817
Accounts payable and accrued liabilities	<b>20,911</b>	26,688

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:

	<b>Impact on Net Income</b>
U.S. Dollar Exchange Rate – 10% increase	<b>\$ 1,490</b>
U.S. Dollar Exchange Rate – 10% decrease	<b>(1,490)</b>

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**13. Financial instruments—continued**

Revenue concentration and credit risk

For the six months ended August 31, 2024, the Company was engaged in contracts for products and services with two (2023 – one) customer(s) in excess of 10% of revenue, which accounted for \$2,454,750 (2023 - \$516,225) or 74% (2023 – 45%) of the Company's total revenue. For the three months ended August 31, 2024, the Company had contracts with one (2023 – one) customer in excess of 10% of revenue, which generated \$1,122,350 (2023 - \$379,700) or 73% (2023 – 55%) of the Company's total revenue. The loss of these customers, or a significant reduction in purchase volume from these customers, could have a material adverse effect on the Company's financial position, results of operations, and cash flows.

The Company manages credit risk by dealing with financially sound customers, based on an evaluation of the customer's financial condition. The maximum exposure to credit risk is the carrying value of accounts receivable and cash. One (2023 - three) customers had an outstanding balance in excess of 10% of accounts receivable, which accounted for \$412,500 (2023 - \$305,450) or 61% (2023 – 59%) of the Company's total accounts receivable balance. The table below provides a analysis of the current and past due accounts receivable.

	Total	Current	≤ 30 days	> 30 days ≤ 60 days	>60 days ≤ 90 days	> 90 days
<b>August 31, 2024</b>	<b>\$ 721,214</b>	<b>\$ 591,093</b>	<b>\$ 37,276</b>	<b>\$ 30,580</b>	<b>\$ 51,394</b>	<b>\$ 10,871</b>
August 31, 2023	\$ 558,889	\$ 229,532	\$ 177,836	\$ 49,053	\$ 69,125	\$ 33,343

As at August 31, 2024, the average expected credit loss on the Company's accounts receivable was 0% and as a result the provision for expected credit losses was \$nil.

**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 six months ended August 31, 2024.