

**California Nanotechnologies Corp.**  
**Condensed consolidated financial statements**  
For the interim three month period ended May 31, 2017  
(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 financial statements for the period ended May 31, 2017.

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

The financial statements of California Nanotechnologies Corp. and the accompanying interim condensed consolidated statements of financial position as at May 31, 2017 and the interim consolidated statements of income, comprehensive income, changes in equity and cash flows for the nine month period ended 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 financial statements in accordance with IAS 34, Interim Financial Reporting as issued by the International Accounting Standards Board ("IASB").

signed "David F. Grant"  
David F. Grant  
CEO  
July 26, 2017

signed "Roger Dent"  
Roger Dent  
Director

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

As at	Note	May 31, 2017 (unaudited)	February 28, 2017
<b>ASSETS</b>			
<b>Current assets</b>			
Cash		\$ 22,753	\$ 18,257
Accounts receivable		66,000	67,356
Equipment deposit	5	64,240	64,240
Prepaid expenses and deposits		15,217	5,781
<b>Total current assets</b>		<b>168,210</b>	<b>155,634</b>
Equipment	5	46,014	48,455
Intangible assets	6	48,890	52,224
Other assets		6,235	6,235
<b>Total assets</b>		<b>\$ 269,349</b>	<b>\$ 262,548</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities		\$ 74,899	\$ 88,071
Income taxes payable		2,400	2,400
Interest payable		6,896	3,380
Finance lease obligation – current portion	8	840	822
Bank indebtedness	7	225,000	165,000
Advances from related parties	4	1,045,522	1,045,522
Share purchase warrants	10(b)	2,478	69,014
<b>Total current liabilities</b>		<b>1,358,035</b>	<b>1,374,209</b>
Finance lease obligation – long-term	8	1,490	1,707
<b>Total liabilities</b>		<b>1,359,525</b>	<b>1,375,916</b>
<b>Shareholders' deficit</b>			
Share capital	10	2,902,277	2,902,277
Contributed surplus	12	257,358	246,167
Deficit		(4,249,811)	(4,261,812)
<b>Total shareholders' deficit</b>		<b>(1,090,176)</b>	<b>(1,113,368)</b>
<b>Total liabilities and shareholders' deficit</b>		<b>\$ 269,349</b>	<b>\$ 262,548</b>

Going concern 2

“signed” David Grant  
**Director**

“signed” Roger Dent  
**Director**

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

**California Nanotechnologies Corp.**  
**Condensed Consolidated Statements of Income and Comprehensive Income**  
**United States Dollars**  
**(Unaudited – prepared by management)**

For the three month period ended May 31	Note	2017	2016
<b>Revenue</b>		\$ 116,723	\$ 96,195
<b>Cost of goods sold</b>		27,156	37,819
<b>Gross margin</b>		89,567	58,376
<b>Expenses</b>			
Advertising and promotion		9,556	6,741
Depreciation and amortization - equipment and intangible assets	5, 6	5,775	3,975
Consulting		9,909	17,712
Office		3,185	7,469
Professional fees		8,295	9,995
Repairs and maintenance		2,180	-
Research and development		10,000	13,430
Salaries, wages and benefits		64,186	70,544
Supplies		11,263	5,357
Travel and entertainment		1,138	1,851
Share-based compensation	10(c)	11,191	4,321
		136,678	141,395
<b>Loss from operations</b>		(47,111)	(83,019)
<b>Other income (expense)</b>			
Foreign exchange gain (loss)		913	(1,482)
Interest expense		(7,537)	(5,287)
Unrealized gain on share purchase warrants	10(b)	66,536	20,907
<b>Income before income taxes</b>		12,801	(68,881)
<b>Provision for income taxes</b>		800	800
<b>Net income and comprehensive income</b>		\$ 12,001	\$ (69,681)
<b>Earnings (loss) per share – basic</b>	11	\$ 0.01	\$ (0.01)
<b>- diluted</b>	11	0.01	(0.01)
<b>Weighted average shares outstanding - basic</b>	11	31,430,296	31,230,296
<b>- diluted</b>	11	31,430,296	31,230,296

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

**California Nanotechnologies Corp.**  
**Consolidated Statements of Changes in Equity**  
**United States Dollars**  
(Unaudited – prepared by management)

	Note	Share capital	Contributed surplus	Deficit	Total
Balance at February 28, 2017		\$ 2,902,277	\$ 246,167	\$ (4,261,812)	\$ (1,113,368)
<b>Share-based compensation</b>	<b>10(c)</b>	-	<b>11,191</b>	-	<b>11,191</b>
<b>Net income and comprehensive income</b>		-	-	<b>12,001</b>	<b>12,001</b>
<b>Balance at May 31, 2017</b>		<b>\$ 2,902,277</b>	<b>\$ 257,358</b>	<b>\$ (4,249,811)</b>	<b>\$ (1,090,176)</b>

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

**California Nanotechnologies Corp.**  
**Consolidated Statements of Cash Flows**  
**United States Dollars**  
(Unaudited – prepared by management)

For the three month period ended May 31	Note	2017	2016
<b>Cash provided by (used for) the following activities</b>			
<b>Operating activities</b>			
Net income (loss) and comprehensive income (loss)		\$ 12,001	\$ (69,681)
Depreciation and amortization - equipment and intangible assets	5,6	5,775	3,975
Unrealized gain on share purchase warrants	10(b)	(66,536)	(20,907)
Share-based compensation	10(c)	11,191	4,321
		<u>(37,569)</u>	<u>(82,292)</u>
Changes in working capital accounts			
Accounts receivable		1,356	24,832
Prepaid expenses and deposits		(9,436)	(5,022)
Income taxes payable		-	800
Accounts payable and accrued liabilities		(13,172)	739
Interest payable		3,516	-
<b>Net cash used for operating activities</b>		<b>(55,305)</b>	<b>(60,943)</b>
<b>Financing activities</b>			
Repayment of finance lease obligation		(199)	(182)
Advances from credit line		60,000	-
<b>Net cash provided (used) by financing activities</b>		<b>59,801</b>	<b>(182)</b>
<b>Net cash provided (used) by investing activities</b>		<b>-</b>	<b>-</b>
<b>Increase (decrease) in cash resources</b>		<b>4,496</b>	<b>(61,125)</b>
<b>Cash, beginning of period</b>		<b>18,257</b>	<b>108,687</b>
<b>Cash, end of period</b>		<b>\$ 22,753</b>	<b>\$ 47,562</b>

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

**1. Incorporation and operations**

Veritek Technologies Inc. was incorporated under the laws of the Province of Alberta on May 19, 2002. On February 1, 2007, the Company changed its name to California Nanotechnologies Corp. (the “Company”) in connection with the reverse takeover with California Nanotechnologies Inc. The condensed consolidated financial statements of the Company for the period ended May 31, 2017 include the accounts of the Company and its wholly-owned subsidiaries. Its head office, research and development, and production operations are located at 17220 Edwards Road, Cerritos, California, U.S.A, 90703. A corporate, registered office is located at 900 - 517 - 10<sup>th</sup> Avenue S.W., Calgary, Alberta T2R 0A8. Since the date of the reverse takeover, the Company has been devoted to the development of nanocrystalline materials through grain size reduction. The advantages of these materials include improved strength and ductility. The Company's target markets are Aerospace, Defense, Automotive, Medical and Sports and Recreation. Since the most significant portion of the Company's operations are located in the United States and its functional currency is denominated in United States dollars, these condensed consolidated financial statements are presented in United States dollars. The Company is listed for trading on the TSX Venture Exchange under the symbol CNO and in the United States on the OTCQB under the symbol CANOF. These condensed consolidated financial statements were authorized for issue in accordance with a resolution by the Board of Directors on July 26, 2017.

**2. Going concern**

These condensed 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 period of \$12,001 (2016 – (\$69,681)) and negative cash flows from operating activities of \$55,305 (2016 – \$60,943). In addition, the Company has an accumulated deficit of \$4,249,811 (2016 - \$4,261,812). 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 financial statements do not reflect the adjustments or reclassification of assets and liabilities which would be necessary if the Company were unable to continue its operations.

**3. Significant accounting policies**

These condensed consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and the International Financial Reporting Interpretations Committee (“IFRIC”) in effect at March 1, 2016. The principal accounting policies are set out below.

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

The preparation of condensed consolidated financial statements requires management to make estimates and judgments that affect the amounts reported in the condensed consolidated financial statements and accompanying notes. Actual results could differ from those estimates. The condensed consolidated financial statements have, in management's opinion, been properly prepared using careful judgment with reasonable limits of materiality and within the framework of the significant accounting policies summarized below:

**3. Significant accounting policies – continued**

(a) Consolidation

The Company has consolidated the assets, liabilities, revenues and expenses of the subsidiaries after the elimination of intercompany transactions and balances. These condensed consolidated financial statements include the accounts of the Company, and its wholly owned subsidiaries, California Nanotechnologies Inc. and White Roof Solutions, Inc.

(b) Basis of measurement

These condensed consolidated financial statements have been prepared on a going concern basis, using the historical cost convention except for share-based compensation and financial assets classified as fair value through profit or loss or available-for-sale which are measured at fair value. In addition, they have been prepared on an accrual basis of accounting except for cash flow information.

(c) Revenue recognition

Revenue is recognized when goods are shipped or services provided to the customer, significant contractual obligations have been satisfied, and collection of the resulting receivable is reasonably assured. The Company recognizes revenue and profits from contracts on the percentage of completion basis, and accordingly costs are expensed as incurred and revenue is recognized only to the extent of contract costs incurred that will be recoverable. Expected losses are recognized immediately when it is probable that total contract costs will exceed total contract revenue.

(d) Cash

Cash includes balances with banks. Any cheques issued in excess of cash are covered with the Company's overdraft protection in the amount of \$30,000.

(e) Business combinations

The Company uses the acquisition method of accounting to account for business combinations. The consideration transferred is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Company. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

(f) Equipment

Equipment is carried at historical cost less accumulated depreciation. Depreciation is provided using the straight-line method and is calculated over the estimated useful life of the assets, which has been estimated as seven years for nanotechnology equipment and three years for roof coating equipment. Borrowing costs are capitalized that are directly attributable to the construction of equipment are capitalized. The Company reviews the criteria for capitalization and the useful life of its equipment on an on-going basis considering changes in circumstances.

When the cost of a part of an item of equipment is significant in relation to the total cost of an item and the items have different useful lives, they are accounted for as separate items (significant components) of equipment. The costs of day-to-day servicing of equipment are recognized in direct operating expenses. Gains or losses on disposal of an item of equipment is determined by comparing the proceeds from disposal with the carrying amount of equipment, and are recognized net within net income in the consolidated statements of income and comprehensive income. Depreciation methods, useful lives and residual values are reviewed at the end of each reporting period and adjusted if appropriate.

**3. Significant accounting policies – continued**

(g) Leased assets

Leases in terms of which the Company assumes substantially all of the risks and rewards of ownership are classified as finance leases and are capitalized at the commencement of the lease term at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Other leases are operating leases and are not recognized on the Company's consolidated statement of financial position.

(h) Intangible assets

Intangible assets are comprised of customer relationships, trade secrets, use of operating rights and contract intangibles. Intangible assets are recorded at cost less any accumulated amortization and/or impairment losses. Intangible assets are amortized on a straight-line basis over their estimated useful life of 15 years and are assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization method and period of an intangible asset is reviewed at least annually.

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

(i) Impairment of non-financial assets

The Company assesses, at the end of each reporting period, whether there is an indication that an asset group may be impaired. If any indication of impairment exists, the Company estimates the recoverable amount of the asset group. External triggering events include, for example, changes in customer or industry dynamics, other technologies and economic declines. Internal triggering events for impairment include lower profitability or planned restructuring. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets, cash generating units ("CGU").

If the carrying amount of the asset, or its respective CGU, exceeds its estimated recoverable amount, the difference is recognized as an impairment charge. The Company's corporate assets, which do not generate separate cash inflows, are allocated to the CGUs on a reasonable basis for impairment testing purposes.

The Company's impairment tests compare the carrying amount of the asset or CGU to its recoverable amount. The recoverable amount is the higher of fair value less costs of disposal ("FVLCD") and value in use ("VIU"). FVLCD is the amount obtainable from the sale of an asset or CGU in an arm's length transaction of similar assets or observable market prices, less the costs of disposal. The determination of VIU requires the estimation and discounting of cash flows which involves key assumptions that consider all information available on the respective testing date. Management uses its judgment, considering past and actual performance as well as expected developments in the respective markets and in the overall macro-economic environment and economic trends to model and discount future cash flows.

**3. Significant accounting policies – continued**

(j) Provisions

Provisions cover risks resulting from legal disputes and proceedings. In order to determine the amount of the provisions, the facts related to each case, the size of the claim, awards in similar cases, the expected timing of such possible awards, insurance coverage and deductibles and independent expert advice are considered along with assumptions regarding the probability of a successful claim and the range of possible awards. The actual costs can deviate from these estimates.

A provision is recognized in the condensed consolidated financial statements when the Company has a material obligation, whether existing or potential, as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If the obligation is determined to be material, then the estimated amount of the provision is determined by discounting the expected future cash outflows. At May 31, 2017 and February 29, 2016 there were no provisions recognized in the condensed consolidated financial statements.

(k) Income taxes

Income tax expense for the period consists of current and deferred tax. Deferred tax is recognized in the consolidated statement of income and comprehensive income, except to the extent that it relates to a business combination or items recognized in other comprehensive income (“OCI”) 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.

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 condensed consolidated financial statements. Deferred tax liabilities are not recognized and are not accounted for if they arise from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable income. Deferred taxes are calculated on the basis of the tax laws enacted or substantively enacted as at the reporting date and apply to when the related deferred tax asset is realized or the deferred tax liability is settled.

Current and deferred tax assets and liabilities are offset when there is a legally enforceable right to settle on a net basis and when such assets and liabilities relate to income taxes imposed by the same taxation authority.

(l) Foreign exchange

These condensed consolidated financial statements have been presented in United States (U.S.) dollars, the functional currency of the Company's operations. Monetary assets and liabilities denominated in foreign currencies are translated into U.S. dollars at the foreign exchange rate in effect at the statement of financial position date. Revenue and expense transactions in foreign currencies are translated to the appropriate functional currency at the foreign exchange rate on the date of the transaction with all consequential exchange differences recognized in net income and comprehensive income.

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 OCI.

**3. Significant accounting policies – continued**

(m) Share-based compensation plan

The Company provides equity-settled share-based payments in the form of a share option plan to its employees, officers, directors and consultants. The Company accounts for these share options using the fair value method of accounting for share-based compensation. Under this method, the associated compensation expense is charged to net income and comprehensive income with a corresponding increase to contributed surplus less an estimated forfeiture rate over each vesting period (tranches) of the options granted. The forfeiture rate is based on past experience of actual forfeitures. Each tranche is treated as a separate share option grant, and subsequently valued at the start of each tranche's vesting period.

Share-based compensation transactions with non-employees are measured at the fair value of the goods or services recovered. However, if the fair value cannot be estimated reliably, the share-based compensation transaction is measured at the fair value of the equity instruments granted at the date the non-employee provides the goods or services.

(n) Per share amounts

Basic income per share is calculated using the weighted average number of shares outstanding during the period. The Company follows the treasury stock method for the computation of diluted per share amounts. This method assumes the proceeds from the exercise of dilutive options and warrants are used to purchase common shares at the weighted average market price during the period.

(o) Research and development expenses

Expenses related to research and development activities that do not meet generally accepted criteria for deferral are expensed as incurred, net of related tax credits and government grants. Development expenses that meet generally accepted criteria for deferral, in accordance with the IAS 38, "Intangible Assets", are capitalized, net of related tax credits and government grants, and are amortized against net income and comprehensive income over the estimated benefit period. The Company assesses, at the end of each reporting period, whether there is an indication the assets may be impaired. If any indication of impairment exists, the Company estimates the recovery amount of the assets. Research and development expenses are mainly comprised of salaries and related expenses, material costs as well as fees paid to third party consultants.

(p) Financial instruments

All financial instruments are required to be measured at fair value on initial recognition of the instrument. Measurement in subsequent periods depends on whether the financial instrument has been classified as "fair value through profit or loss", "available-for-sale", "held-to-maturity", "loans and receivables", or "other financial liabilities" as defined by the standard.

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

**3. Significant accounting policies – continued**

(p) Financial instruments - continued

Cash and share purchase warrants are designated as "fair value through profit or loss". Accounts receivable are designated as "loans and receivables". Accounts payable and accrued liabilities, bank indebtedness, and advances from related parties are designated as "other liabilities".

Financial instruments measured at fair value on the consolidated statement of financial position require classification into one of the following levels of the fair value hierarchy:

- Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 - Inputs other than quoted prices listed in Level 1 that are observable for the asset or liability either directly or indirectly;
- Level 3 - Inputs that are not based on observable market data.

The fair value hierarchy level at which a fair value measurement is categorized is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

A financial asset, except for those classified as "fair value through profit or loss," is assessed at each reporting date to determine whether it is impaired based on objective evidence indicating that one or more events have had a negative effect on the estimated future cash flows of that asset. An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the net present value of the estimated future cash flows discounted at the original effective interest rate. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics. All impairment losses are recognized in net income and comprehensive income. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized.

(q) Significant accounting estimates and judgments

The preparation of condensed consolidated financial statements in conformity with IFRS requires management to make estimates and judgments that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosure of contingent assets and liabilities at the reporting date. On an ongoing basis, management evaluates its judgments and estimates in relation to revenue, expenses, assets and liabilities. Management uses historical experience and various other factors it believes to be reasonable under the given circumstances as the basis for its judgments and estimates. Actual outcomes may differ from these estimates under different assumptions and conditions.

The following are the most significant accounting judgments and estimates made by the Company in applying accounting policies:

**Judgments**

Determining CGU's

For the purpose of assessing impairment of tangible and intangible assets, assets are grouped at the lowest level of separately identified cash inflows which make up the CGU. Determination of what constitutes a CGU is subject to management judgment. The asset composition of a CGU can directly impact the recoverability of assets included within the CGU. In assessing the recoverability of tangible and intangible assets, each CGU's carrying value is compared to the greater of its FVLCD and VIU.

**3. Significant accounting policies – continued**

(q) Significant accounting estimates and judgments - continued

Deferred taxes

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable earnings will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable earnings together with future tax planning strategies.

**Estimates**

Valuation of loans and receivables

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

Share-based compensation

The Corporation uses an option pricing model to determine the fair value of share-based compensation. Inputs to the model are subject to various estimates about volatility, interest rates, dividend yields, forfeiture rates and expected life of the units issued. Fair value inputs are subject to market factors as well as internal estimates. The Company considers historic trends together with any new information to determine the best estimate of fair value at the date of grant.

Depreciation and amortization

The condensed consolidated financial statements include estimates of the useful economic life of equipment and intangible assets. Due to varying assumptions required to be made with regards to future recoverability of these assets, the depreciation and amortization recorded by management is based on their best estimate in this regard and may be significantly different from those determined based on future operational results.

(r) New accounting policies

For the three months ended May 31, 2017, the Company did not adopt any new IFRS standards.

(s) Recent accounting pronouncements

In May 2014, the IASB issued IFRS 15 “Revenue from Contracts with Customers”, which replaces International Accounting Standard (“IAS”) 18 “Revenue”, IAS 11 “Construction Contracts”, and related interpretations. The standard is required to be adopted either retrospectively or using a modified transition approach for fiscal years beginning on or after January 1, 2018, with earlier adoption permitted. IFRS 15 will be applied by the Company on March 1, 2018 and the Company is currently evaluating the impact of the standard on its condensed consolidated financial statements.

**3. Significant accounting policies – continued**

(s) Recent accounting pronouncements - continued

In July 2014, the IASB completed the final elements of IFRS 9 “Financial Instruments”. The standard supersedes earlier versions of IFRS 9 and completes the IASB’s project to replace IAS 39 “Financial Instruments: Recognition and Measurement”. IFRS 9, as amended, includes a principle-based approach for classification and measurement of financial assets, a single ‘expected loss’ impairment model and a substantially reformed approach to hedge accounting. The standard will come into effect for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. IFRS 9 will be applied on a retrospective basis by the Company on March 1, 2018 and the Company is currently evaluating the impact of the standard on its condensed consolidated financial statements.

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

**4. Related party transactions**

Advances from related parties are from a related entity that owns 18% of the Company’s shares. The advances bear interest at 2% per annum and is due upon demand. There are no set terms for repayment and the loan is secured by all the assets of the Company. Interest was paid in the amount of \$1,719 (2016 - \$3,472) on the advances with accrued interest in the amount of \$144,436 (February 28, 2017 – \$137,541). This related entity also engaged with the Company for revenue of \$3,283 (2016 – \$19,690) and incurred expenses of \$19,493 (2016 – \$22,548). The transactions are considered to be in the normal course of operations and are initially recognized at their fair value.

	<b>May 31, 2017</b>	February 28, 2017
Advances from related parties	<b>\$ 1,045,522</b>	\$ 1,045,522

**California Nanotechnologies Corp.**  
**Notes to the Consolidated Financial Statements**  
**United States Dollars**  
For the interim period ended May 31, 2017

**4. Related party transactions - continued**

Significant subsidiaries:

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

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

**5. Equipment**

	<b>Nanotechnology equipment</b>	<b>Roof coating equipment</b>	<b>Totals</b>
<b>Cost</b>			
At February 29, 2016, February 28, 2017 and May 31, 2017	<b>\$ 961,940</b>	<b>\$ 8,520</b>	<b>\$ 970,460</b>
<b>Accumulated depreciation</b>			
At February 29, 2016	\$ 904,453	\$ 6,833	\$ 912,973
Depreciation	9,032	-	9,032
At February 28, 2017	913,485	8,520	922,005
Depreciation	<b>2,441</b>	-	<b>2,441</b>
At May 31, 2017	<b>\$ 915,926</b>	<b>\$ 8,520</b>	<b>\$ 924,446</b>
<b>Net book value</b>			
At February 28, 2017	\$ 48,455	-	\$ 48,445
At May 31, 2017	<b>\$ 46,014</b>	-	<b>\$ 46,014</b>

Nanotechnology equipment includes equipment with a cost of \$4,084 (February 28, 2017 - \$4,084) and a net book value of \$2,674 (February 28, 2017 - \$2,820) under finance lease obligation (See note 8). During the prior year, the Company paid an equipment deposit in the amount of \$64,240 on equipment with a value of \$642,400, with additional committed installments in 2017 totaling \$578,160. Delivery is scheduled for August 2017. The Company did not add or dispose of equipment (February 28, 2017 – nil).

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**6. Intangible assets**

	Trade secrets	Use of operating rights	Customer list	Customer contract	Total
<b>Cost</b>					
At February 29, 2016, February 28, 2017, and May 31, 2017	\$ 100,000	\$ 50,000	\$ 27,000	\$ 23,000	\$ 200,000
<b>Accumulated amortization</b>					
At February 29, 2016	\$ 67,224	33,610	18,150	\$ 15,459	134,443
Amortization	6,667	3,333	1,800	1,533	13,333
At February 28, 2017	\$ 73,891	\$ 36,943	\$ 19,950	\$ 16,992	\$ 147,776
Amortization	<b>1,667</b>	<b>834</b>	<b>450</b>	<b>383</b>	<b>3,334</b>
At May 31, 2017	<b>\$ 75,558</b>	<b>\$ 37,777</b>	<b>\$ 20,400</b>	<b>\$ 17,375</b>	<b>\$ 151,110</b>
<b>Net book value</b>					
At February 28, 2017	\$ 26,109	\$ 13,057	\$ 7,050	\$ 6,008	\$ 52,224
At May 31, 2017	<b>\$ 24,442</b>	<b>\$ 12,223</b>	<b>\$ 6,600</b>	<b>\$ 5,625</b>	<b>\$ 48,890</b>

**7. Credit facilities**

Effective July, 2016, the Company established a commercial advance line of up to \$30,000 for operating purposes, bearing interest at 8% per annum, repayable in monthly principal and interest installments. The credit line is personally guaranteed by a director of the Company.

Effective September 2016, the Company established a new long-term primary credit facility (the "Credit Agreement") with total credit facilities of up to \$250,000, comprised of a commercial advance line in the amount of \$250,000, bearing interest at the prime rate plus one-half of one percent (0.50%) maturing on May 31, 2018. The Credit Agreement is secured by all the accounts, inventory, equipment, and general intangibles of the Company and guaranteed by a related party.

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

Less: current portion

	May 31, 2017	February 28, 2017
	\$ -	\$ -
	<b>225,000</b>	165,000
	-	-
	<b>(225,000)</b>	(165,000)
	<b>\$ -</b>	<b>\$ -</b>

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**7. Credit facilities - continued**

Interest of \$2,249 (May 31, 2016 - \$nil) related to the advance lines has been recorded as interest expense in the condensed consolidated statements of income and comprehensive income for the period ended May 31, 2017.

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

2017-18	\$ 225,000
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**8. Finance lease obligation**

	<b>May 31, 2017</b>	February 28, 2017
Equipment under a finance lease payable in equal month installments of \$84 which includes implied interest of 8.7%. The lease matures on December 16, 2019 and is secured against the equipment under finance lease with a net book value of \$2,674 (February 28, 2017 - \$2,820).	<b>\$ 2,330</b>	\$ 2,529
Less: current portion	<b>(840)</b>	(822)
	<b>\$ 1,490</b>	\$ 1,707

Interest of \$54 (2016 - \$70) related to the finance lease has been recorded as interest expense in the consolidated statements of income and comprehensive income for the period ended May 31, 2017.

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

2018	\$ 1,011
2019	1,011
2020	590
	2,612
Less: implied interest	(282)
	2,330
Less: current portion	(840)
	<b>\$ 1,490</b>

**9. Compensation of Key Management Personnel**

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

	<b>May 31, 2017</b>	May 31, 2016
Remuneration including share-based payments	<b>\$ 16,500</b>	\$ 15,881

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

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**10. Share capital**

(a) Authorized:

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

(b) Issued:

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

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

On April 9, 2014, the Company completed a private placement of 5,290,296 units at \$0.135 Canadian Dollars ("CAD") per unit for total proceeds of \$714,190 CAD. Each unit was comprised of one common share and one-half of one common share purchase warrant exercisable at \$0.225 CAD per common share until April 9, 2015. These warrants were valued at \$0.0562 CAD per warrant for a total of \$148,676 CAD. The ascribed values of the warrants were determined using the Black-Scholes fair value pricing model based on a risk free rate of 1.06%, expected volatility of 167.9% and an expected life of one year. The total costs to complete the private placement were \$32,981, which included finder's fees in the aggregate amount of \$16,745 CAD to eligible finders who introduced subscribers to the private placement.

Since April 9, 2014 various extensions of the warrants' expiration date have been approved by the TSV Venture Exchange with a current extension of the share purchase warrants to October 8, 2017. As the exercise price of the share purchase warrants are fixed in Canadian dollars and the functional currency of the Company is the U.S. dollar, the warrants are considered a derivative, as a variable amount of cash in the Company's functional currency will be received on exercise. At May 31, 2017, the fair value of share purchase warrants issued and outstanding with Canadian dollar exercise prices was \$2,478 (December 31, 2016 - \$69,014). 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

	<b>Number</b>	<b>Amount</b>
Total issued and outstanding, February 29, 2016	2,645,148	\$ 20,963
Unrealized loss on share purchase warrants	-	48,051
Total issued and outstanding, February 28, 2017	2,645,148	\$ 69,014
Unrealized income on share purchase warrants	-	<b>(66,536)</b>
Total issued and outstanding, May 31, 2017	<b>2,645,148</b>	<b>\$ 2,478</b>

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**10. Share capital - continued**

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

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

	<b>Number of Options</b>	<b>Weighted Average price (CAD)</b>
Balance, February 29, 2016	2,580,000	\$ 0.08
Granted	1,625,000	0.08
Exercised	(200,000)	0.05
Expired	(805,000)	0.08
Forfeited	(750,000)	0.08
Balance, February 28, 2017 and May 31, 2017	2,450,000	\$ 0.07

During the period ended May 31, 2017, the Company recorded \$11,191 in share-based compensation expense (2016 - \$4,321). The weighted average fair value of the options granted during the period (2016 - \$0.08) is estimated using the Black Scholes option-pricing model with the following assumptions:

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

The following tables summarize information about stock options outstanding at May 31, 2017:

<b>Options Outstanding</b>				<b>Options Exercisable</b>	
<b>Exercise Price</b>	<b>Number of options</b>	<b>Weighted Average of Remaining Contractual Life (years)</b>	<b>Weighted Average Exercise Price (CAD)</b>	<b>Number of Options</b>	<b>Weighted Average Exercise Price (CAD)</b>
\$ 0.05 - 0.12	2,450,000	3.1	\$ 0.07	908,332	\$ 0.06

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

<b>Options Outstanding</b>				<b>Options Exercisable</b>	
<b>Exercise Price</b>	<b>Number of options</b>	<b>Weighted Average of Remaining Contractual Life (years)</b>	<b>Weighted Average Exercise Price (CAD)</b>	<b>Number of Options</b>	<b>Weighted Average Exercise Price (CAD)</b>
\$ 0.05 - 0.12	2,450,000	3.4	\$ 0.07	874,998	\$ 0.06

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**11. Income per share**

The basic income per common share is calculated by dividing net income and comprehensive income by the weighted-average number of common shares outstanding. The diluted income per common share is calculated using net income and comprehensive income divided by the weighted-average number of diluted common shares outstanding during the period.

**12. Contributed surplus**

	<b>May 31, 2017</b>	February 28, 2017
Balance, beginning of period	<b>\$ 246,167</b>	\$ 226,469
Share-based compensation (11(c))	<b>11,191</b>	24,313
Exercise of options (11(b))	-	(4,615)
Balance, end of period	<b>\$ 257,358</b>	\$ 246,167

**13. Financial instruments**

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

	<b>May 31, 2017</b>		February 28, 2017	
	<b>Carrying Value</b>	<b>Fair Value</b>	Carrying Value	Fair Value
<b>At fair value through profit or loss</b>				
Cash	<b>\$ 22,753</b>	<b>\$ 22,753</b>	\$ 18,257	\$ 18,257
Share purchase warrants	<b>2,478</b>	<b>2,478</b>	69,014	69,014
<b>Loans and receivables</b>				
Accounts receivable	<b>66,000</b>	<b>66,000</b>	67,356	67,356
<b>Other liabilities</b>				
Accounts payable and accrued liabilities	<b>74,899</b>	<b>74,899</b>	88,071	88,071
Finance lease obligation	<b>2,330</b>	<b>2,330</b>	2,529	2,529
Bank indebtedness	<b>225,000</b>	<b>225,000</b>	165,000	165,000
Advances from related parties	<b>1,045,522</b>	<b>1,045,522</b>	1,045,522	1,045,522

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

	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Assets</b>				
Cash	\$ 22,753	\$ 22,753	\$ -	\$ -
Share purchase warrants	2,478	-	2,478	-

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

**13. Financial instruments - continued**

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

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

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

Liquidity Risk

The Company defines liquidity risk as the financial risk that the Company will encounter difficulties meeting its obligations associated with financial liabilities. The Company's objective for managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. This risk is mitigated by managing the cash flow by controlling receivables and payables to vendors and related parties. At May 31, 2017, the Company had a working capital deficiency of \$1,189,825 (February 28, 2017 – \$1, 218,575).

Foreign currency risk

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

The Company manages its exposure to foreign currency fluctuations by maintaining foreign currency bank accounts and receivables to offset foreign currency payables and planned expenditures. At May 31, 2017, the Company had the following balances denominated in Canadian dollars. The balances have been translated into U.S. currency in accordance with the Company's foreign exchange accounting policy.

	<b>U.S. Dollar May 31, 2017</b>	U.S. Dollar February 28, 2017
Cash/(bank overdraft)	\$ 2,693	\$ (26)
Accounts payable and accrued liabilities	<b>31,092</b>	32,744

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

	<b>Impact on Net Income</b>
U.S. Dollar Exchange Rate – 10% increase	\$ 2,840
U.S. Dollar Exchange Rate – 10% decrease	<b>(2,840)</b>

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**13. Financial instruments - continued**

Credit risk

The Company manages credit risk by dealing with financially sound customers, based on an evaluation of the customer's financial condition. For the three month period ended May 31, 2017, the Company was engaged in contracts with two (2016 – three) customers that exceeded 10% of total revenue, which accounted for \$73,235 (2016 - \$60,984) or 63% (2016 – 63%) of the Company's total revenue. The maximum exposure to credit risk is the carrying value of accounts receivable and cash. One (February 28, 2017 - three) customer had an outstanding balance in excess of 10% of accounts receivable, which accounted for \$45,657 (February 28, 2017 - \$36,488) or 69% (February 28, 2017 – 81%) of the Company's total accounts receivable balance. No allowance for doubtful accounts was recorded. The table below provides an analysis of our current and past due but not impaired accounts receivables.

	<b>Total</b>	<b>Current</b>	<b>≤ 30 days</b>	<b>&gt; 30 days ≤ 60 days</b>	<b>&gt;60 days ≤ 90 days</b>	<b>&gt; 90 days</b>
<b>May 31, 2017</b>	<b>\$ 66,000</b>	<b>\$ 58,868</b>	<b>\$ 6,295</b>	<b>\$ 646</b>	<b>\$ -</b>	<b>\$ 191</b>
February 28, 2017	\$ 67,356	\$ 63,542	\$ 3,016	\$ 494	\$ -	\$ 304

**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 period ended May 31, 2017.