



California Nanotechnologies Corp.
Condensed Consolidated Interim Financial Statements
For the three months ended May 31, 2019
(Unaudited, in United States Dollars)

Contents

Condensed Consolidated Interim Financial Statements	
Interim Statements of Financial Position	2
Interim Statements of Loss and Comprehensive Loss	3
Interim Statements of Changes in Equity	4
Interim Statements of Cash Flows	5
Notes to Condensed Consolidated Interim Financial Statements	6 - 16

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

As at	Note	May 31, 2019 (unaudited)	February 28, 2019 (audited)
ASSETS			
Current assets			
Cash		\$ 5,241	\$ 18,563
Accounts receivable		47,516	61,187
Inventory	4	30,732	30,732
Prepaid expenses and other current assets		6,431	8,094
Total current assets		89,920	118,576
Equipment	6	591,596	620,299
Intangible assets	7	30,839	34,172
Total assets		\$ 712,355	\$ 773,047
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		\$ 153,367	\$ 141,206
Income taxes payable		800	3,200
Interest payable		50,081	42,107
Finance lease obligation – current portion	9	573	731
Bank indebtedness	8	363,853	362,547
Advances from related parties	5	1,060,522	1,045,522
Total current liabilities		1,629,196	1,595,313
Bank indebtedness	8	321,131	347,854
Total liabilities		1,950,327	1,943,167
Shareholders' equity			
Share capital	11	2,902,277	2,902,277
Contributed surplus	13	298,646	295,896
Deficit		(4,438,895)	(4,368,293)
Total shareholders' equity		(1,237,972)	(1,170,120)
Total liabilities and shareholders' equity		\$ 712,355	\$ 773,047

Going concern

2

“signed” Eric Eyerman
CEO

“signed” Roger Dent
Director

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

Note	For the three months ended May 31, 2019	For the three months ended May 31, 2018
Revenue	\$ 130,043	\$ 182,549
Cost of goods sold	72,479	82,928
Gross margin	57,564	99,621
Expenses		
Advertising and promotion	9,330	4,543
Amortization and depreciation - equipment and intangible assets	6,7 32,036	31,356
Consulting	-	963
Office	10,387	7,577
Professional fees	8,398	11,660
Repairs and maintenance	-	170
Research	2,693	132
Salaries, wages and benefits	36,754	19,803
Supplies	7,749	13,735
Travel and entertainment	2,427	3,106
Share-based compensation	11c 2,750	3,934
	112,524	96,979
(Loss) income from operations	(54,960)	2,642
Foreign exchange loss	(155)	(62)
Interest expense	(17,887)	(16,435)
Unrealized gain on share purchase warrants	-	11
Loss before income taxes	(73,002)	(13,844)
(Recovery) provision for income taxes	(2,400)	800
Loss and comprehensive loss	\$ (70,602)	\$ (14,644)
Loss per share - basic	12	\$ nil
- diluted	12	\$ nil
Weighted average shares outstanding - basic	11b	31,430,296
- diluted		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, 2018		\$ 2,902,277	\$ 280,961	\$ (4,309,126)	\$ (1,125,888)
Share-based compensation	11c	-	3,934	-	3,934
Net loss and comprehensive loss		-	-	(14,644)	(14,644)
Balance at May 31, 2018		\$ 2,902,277	\$ 284,895	\$ (4,323,770)	\$ (1,136,598)
Balance at February 28, 2019		\$ 2,902,277	\$ 295,896	\$ (4,368,293)	\$ (1,170,120)
Share-based compensation	11c	-	2,750	-	2,750
Net loss and comprehensive loss		-	-	(70,602)	(70,602)
Balance at May 31, 2019		\$ 2,902,277	\$ 298,646	\$ (4,438,895)	\$ (1,237,972)

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

Note	For the three months ended May 31, 2019	For the three months ended May 31, 2018
Cash flows from operating activities		
Net loss for three months	\$ (70,602)	\$ (14,644)
Amortization and depreciation - equipment and intangible assets	6,7 32,036	31,356
Unrealized gain on share purchase warrants	10(b) -	(11)
Share-based compensation	10(c) 2,750	3,934
	(35,816)	20,635
Net changes in non-cash working capital items		
Accounts receivable	13,671	7,693
Inventory	-	1,392
Prepaid expenses	1,663	2,417
Accounts payable and accrued liabilities	9,761	(18,634)
Income taxes payable	-	800
Interest payable	7,974	5,286
Net cash (used for) from operating activities	(2,747)	19,589
Cash flows from financing activities		
Lease obligation	(158)	(217)
Proceeds from due to related parties	15,000	-
Payments to bank indebtedness	(25,417)	(23,995)
Net cash used for financing activities	(10,575)	(24,212)
Cash flows from investing activities		
Purchase of equipment	6 -	(2,278)
Net cash used for investing activities	-	(2,278)
Decrease in cash resources	(13,322)	(6,901)
Cash, beginning of period	18,563	36,192
Cash, end of period	\$ 5,241	\$ 29,291

California Nanotechnologies Corp.
Notes to Condensed Consolidated Interim Financial Statements
United States Dollars
For the three months ended May 31, 2019

1. Incorporation and operations

Veritek Technologies Inc. (the “Company”) was incorporated under the laws of the Province of Alberta on May 19, 2002. On February 1, 2007, the Company changed its name to California Nanotechnologies Corp. in connection with the reverse takeover with California Nanotechnologies Inc. The condensed consolidated interim financial statements of the Company for the three months ended May 31, 2019 include the accounts of the Company and its wholly-owned subsidiaries. Its head office, research and development, and production operations are located at 17220 Edwards Road, Cerritos, California, U.S.A, 90703. A corporate, registered office is located at 900 - 517 - 10th Avenue S.W., Calgary, Alberta T2R 0A8. Since the date of the reverse takeover, the Company has been devoted to the development of nanocrystalline materials through grain size reduction. The advantages of these materials include improved strength and ductility. The Company's target markets are Aerospace, Defense, Automotive, Medical and Sports and Recreation. Since the most significant portion of the Company's operations is located in the United States and its functional currency is denominated in United States (“U.S.”) dollars, these condensed consolidated interim financial statements are presented in U.S. dollars. The Company is listed for trading on the TSX Venture Exchange under the symbol CNO and in the United States on the OTCQB under the symbol CANOF. These condensed consolidated interim financial statements were authorized for issue in accordance with a resolution by the Board of Directors on July 30, 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 three months of \$70,602 (2018 – \$14,644). In addition, the Company has an accumulated deficit of \$4,438,895 (February 28, 2019 - \$4,368,293). These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern.

The Company's ability to continue as a going concern is dependent upon its ability to attain profitable operations and generate funds there from, and to continue to obtain equity investment and borrowings sufficient to meet current and future obligations and/or restructure the existing debt and payables. These condensed consolidated interim financial statements do not reflect the adjustments or reclassification of assets and liabilities which would be necessary if the Company were unable to continue its operations that could be material.

3. Significant accounting policies

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, 2019 and 2018 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, 2019. 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 months ended May 31, 2019

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.

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:

	IAS 39	IAS 9
Financial assets		
Cash	Held for trading	FVTPL
Accounts receivable	Loans and receivables	Amortized cost
Financial liabilities		
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Interest payable	Other financial liabilities	Amortized cost
Bank indebtedness	Other financial liabilities	Amortized cost
Advances from related party	Other financial liabilities	Amortized cost
Share purchase warrants	FVTPL	FVTPL

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. 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")

On March 1, 2018 the Company adopted IFRS 15 using the modified retrospective approach. 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.

(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 was applied by the Company on March 1, 2019 and the Company is currently quantifying the impact of the standard on its consolidated financial statements.

California Nanotechnologies Corp.
Notes to Condensed Consolidated Interim Financial Statements
United States Dollars
For the three months ended May 31, 2019

4. Inventory

The major components of inventory are classified as follows:

	May 31, 2019	February 28, 2019
Raw materials	\$ 27,951	\$ 27,951
Finished goods	2,781	2,781
	\$ 30,732	\$ 30,732

The cost of finished goods inventories recognized as expense and included in cost of goods sold was \$10,920 (2018 - \$11,356). There were no recurring inventory write-downs included in cost of goods sold.

5. Related party transactions

Advances from related party are from a related entity that owns 19.1% of the Company's shares. The advances bear interest at 2% per annum through December 31, 2018, 2.89% thereafter and are due upon demand. There are no set terms for repayment and the loan is secured by all the assets of the Company. Additional security for the loan has been provided by one of the founders and a current member of the board of directors of the Company. Interest was paid in the amount of \$nil (2018 - \$nil) on the advances with accrued interest in the amount of \$188,811 (2018 - \$180,836). This related entity guaranteed the Company's long-term primary credit facility and engaged with the Company for revenue of \$nil (2018 - \$1,239) and incurred expenses of \$10,920 (2018 - \$9,717). The transactions are considered to be in the normal course of operations.

	May 31, 2019	February 28, 2019
Advances from related parties	\$ 1,060,522	\$ 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 months ended May 31, 2019

6. Equipment

	Nanotechnology equipment	Roof coating equipment	Totals
Cost			
At February 28, 2018	\$ 1,676,790	\$ 8,520	\$ 1,685,310
Additions	20,469	-	20,469
At February 28, 2019 and May 31, 2019	\$ 1,697,259	\$ 8,520	\$ 1,705,779
Accumulated depreciation			
At February 28, 2018	\$ 964,286	\$ 8,520	\$ 972,806
Depreciation	112,674	-	112,674
At February 28, 2019	1,076,960	8,520	1,085,480
Depreciation	28,703	-	28,703
At May 31, 2019	\$ 1,105,663	\$ 8,520	\$ 1,114,183
Net book value			
At February 28, 2019	\$ 620,299	-	\$ 620,299
At May 31, 2019	\$ 591,596	\$ -	\$ 591,596

Nanotechnology equipment includes equipment with a cost of \$4,084 (February 28, 2019 - \$4,084) and a net book value of \$1,507 (February 28, 2019 - \$1,653) under finance lease obligation (See note 9).

7. Intangible assets

	Trade secrets	Use of operating rights	Customer list	Customer contract	Patent	Totals
Cost						
At February 28, 2018 and 2019 and May 31, 2019	\$ 100,000	\$ 50,000	\$ 27,000	\$ 23,000	\$ 8,615	\$ 208,615
Accumulated amortization						
At February 28, 2018	\$ 80,557	\$ 40,277	\$ 21,750	\$ 18,526	\$ -	\$ 161,110
Amortization	6,666	3,333	1,800	1,533	-	13,333
At February 28, 2019	\$ 87,224	\$ 43,610	\$ 23,550	\$ 20,059	\$ -	\$ 174,443
Amortization	1,666	834	450	383	-	3,333
At May 31, 2019	\$ 88,890	\$ 44,444	\$ 24,000	\$ 20,442	\$ -	\$ 177,776
Net book value						
At February 28, 2019	\$ 12,776	\$ 6,390	\$ 3,450	\$ 2,941	\$ 8,615	\$ 34,172
At May 31, 2019	\$ 11,110	\$ 5,556	\$ 3,000	\$ 2,558	\$ 8,615	\$ 30,839

California Nanotechnologies Corp.
Notes to Condensed Consolidated Interim Financial Statements
United States Dollars
For the three months ended May 31, 2019

8. Bank indebtedness

	May 31, 2019	February 28, 2019
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 (Note 5).	\$ 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 February 23, 2023, with monthly principal payments of \$10,484 that commenced March 31, 2018 for a period of 60 months. .	434,984	460,401
Less: current portion	<u>(363,853)</u>	<u>(362,547)</u>
	<u>\$ 321,131</u>	<u>\$ 347,854</u>

Interest of \$31,730 (2018 - \$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 three months ended May 31, 2019.

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

2019-20	\$ 386,294
2020-21	125,810
2021-22	125,810
Thereafter	<u>94,357</u>
	732,271
Less: interest	<u>(47,287)</u>
	684,984
Less: current portion	<u>(363,853)</u>
	<u>\$ 321,131</u>

California Nanotechnologies Corp.
Notes to Condensed Consolidated Interim Financial Statements
United States Dollars
For the three months ended May 31, 2019

9. Finance lease obligation

	May 31, 2019	February 28, 2019
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 \$1,507 (February 28, 2019 - \$1,653).	\$ 573	\$ 731
Less: current portion	(573)	(731)
	\$ -	\$ -

Interest of \$10 (2018 - \$36) related to the finance lease has been recorded as interest expense in the condensed consolidated statements of net loss and comprehensive loss for the three months ended May 31, 2019. No finance leases were present in the prior year.

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

2019-20	\$ 590
Less: implied interest	(17)
	573
Less: current portion	(573)
	\$ -

10. Compensation of Key Management Personnel

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

	<u>May 31, 2019</u>	<u>May 31, 2018</u>
Remuneration including share-based payments	\$ 25,956	\$ 24,231

Key management personnel of the Company include the CEO, COO and Directors. For the three months ended May 31, 2018, the Company did not pay the current Chief Executive Officer. It is management's estimate that the fair value salary would approximate \$37,500. Due to the lack of independent evidence with respect to the fair value of these services, this transaction has been recorded at the carrying amount of \$nil.

11. Share capital

(a) Authorized:

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

(b) Issued:

	<u>Number</u>	<u>Amount</u>
Total issued and outstanding, February 28, 2018 and 2019, and May 31, 2019	31,430,296	\$ 2,902,277

California Nanotechnologies Corp.
Notes to Condensed Consolidated Interim Financial Statements
United States Dollars
For the three months ended May 31, 2019

11. Share capital – continued

(b) Issued - continued:

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.

Since April 9, 2014 various extensions of the warrants’ expiration date have been approved by the TSV Venture Exchange with the final extension of the share purchase warrants to April 8, 2018. As the exercise price of the share purchase warrants are fixed in CAD 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, 2019, the fair value of share purchase warrants issued and outstanding with CAD exercise prices was \$nil (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 loss and comprehensive loss 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, 2018	2,645,148	\$ 11
Unrealized gain on share purchase warrants	-	(11)
Expired, April 8, 2018	(2,645,148)	-
Total issued and outstanding, February 28, 2019 and May 31, 2019	-	\$ -

(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, 2018	2,275,000	\$ 0.07
Granted	1,235,000	0.05
Expired	(600,000)	0.05
Forfeited	(500,000)	0.07
Balance, February 28, 2019	2,410,000	\$ 0.06
Expired	(100,000)	0.11
Balance, May 31, 2019	2,310,000	\$ 0.06

California Nanotechnologies Corp.
Notes to Condensed Consolidated Interim Financial Statements
United States Dollars
For the three months ended May 31, 2019

11. Share capital – continued

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

During the three months ended May 31, 2019, the Company recorded \$2,750 in share-based compensation expense (2018 - \$3,934). The fair value of the options if granted in the current three months would be estimated using the Black Scholes option-pricing model with the following assumptions:

Risk free interest rate (%)	0.99-1.98
Expected term (years)	2-5
Expected volatility (%)	138-201
Dividend per share	-
Forfeiture rate (%)	12.38

The following tables summarize information about stock options outstanding at May 31, 2019:

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	2,310,000	3.2	\$ 0.06	741,662	\$ 0.08

The following tables summarize information about stock options outstanding at February 28, 2019:

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	2,410,000	3.5	\$ 0.07	841,662	\$ 0.08

12. Loss per share

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

2,310,000 (May 31, 2018 – 2,275,000) options were excluded in calculating the weighted-average number of diluted common shares outstanding for the three months ended May 31, 2019 and 2018, because the Company was in a net loss position and therefore any exercise would be anti-dilutive.

California Nanotechnologies Corp.
Notes to Condensed Consolidated Interim Financial Statements
United States Dollars
For the three months ended May 31, 2019

13. Contributed surplus

	May 31, 2019	February 28, 2019
Balance, beginning of year	\$ 295,896	\$ 280,961
Share-based compensation (11(c))	2,750	14,935
Balance, end of period	\$ 298,646	\$ 295,896

14. Financial instruments

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

	May 31, 2019		February 28, 2019	
	Carrying Value	Fair Value	Carrying Value	Fair Value
At FVTPL				
Cash	\$ 5,241	\$ 5,241	\$ 18,563	\$ 18,563
At amortized cost				
Accounts receivable	47,516	47,516	61,187	61,187
Accounts payable and accrued liabilities	153,896	153,896	141,206	141,206
Interest payable	50,081	50,081	42,107	42,107
Bank indebtedness	684,984	684,984	710,401	710,401
Advances from related party	1,060,522	1,060,522	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	\$ 5,241	\$ 5,241	-	-

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

The carrying values of 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 and finance lease obligation 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.

California Nanotechnologies Corp.
Notes to Condensed Consolidated Interim Financial Statements
United States Dollars
For the three months ended May 31, 2019

14. Financial instruments - continued

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, 2019, the Company had a working capital deficiency of \$1,539,275 (2018 – \$1,476,737) (Note 2).

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

May 31, 2019	≤ 1 year	> 1 year ≤ 3 years	> 3 year ≤ 4 years	> 5 years	Total
Accounts payable and accrued liabilities	\$ 153,896	\$ -	\$ -	\$ -	\$ 153,896
Finance lease obligation	573	-	-	-	573
Bank indebtedness	363,853	228,589	92,542	-	684,984
Total	\$ 518,322	\$ 228,589	\$ 92,542	\$ -	\$ 839,453

February 28, 2018	≤ 1 year	> 1 year ≤ 3 years	> 3 year ≤ 4 years	> 5 years	Total
Accounts payable and accrued liabilities	\$ 143,606	\$ -	\$ -	\$ -	\$ 143,606
Finance lease obligation	731	-	-	-	731
Bank indebtedness	362,547	225,555	122,299	-	710,401
Total	\$ 506,884	\$ 225,555	\$ 122,299	\$ -	\$ 854,738

Foreign currency risk

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

The Company believes its exposure to foreign currency risk to be minimal. At May 31, 2019, 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.

	USD May 31, 2019	USD February 28, 2019
Cash	\$ 46	\$ 61
Accounts receivable	4,066	2,930
Accounts Payable	41,488	36,994

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	\$ 3,738
U.S. Dollar Exchange Rate – 10% decrease	(3,738)

California Nanotechnologies Corp.
Notes to Condensed Consolidated Interim Financial Statements
United States Dollars
For the three months ended May 31, 2019

14. 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 months ended May 31, 2019, the Company was engaged in contracts for products with three (2018 – three) customers in excess of 10% of revenue, which accounted for \$88,358 (2018 - \$122,351) or 68% (2018 – 67%) of the Company's total revenue. The maximum exposure to credit risk is the carrying value of accounts receivable and cash. Three (2018 – four) customers had outstanding balances in excess of 10% of accounts receivable, which accounted for \$34,908 (2018 - \$34,230) or 73% (2018 – 81%) of the Company's total accounts receivable balance. The table below provides an analysis of our current and past due but not impaired accounts receivables.

	Total	Current	≤ 30 days	> 30 days ≤ 60 days	>60 days ≤ 90 days	> 90 days
May 31, 2019	\$ 47,516	\$ 31,654	\$ 15,362	\$ 500	\$ -	\$ -
February 28, 2019	\$ 61,187	\$ 37,977	\$ 19,448	\$ 3,762	\$ -	\$ -

As at May 31, 2019, the average expected credit loss on the Company's accounts receivable was 0% and as a result the provision for expected credit losses is \$nil.

Interest rate risk

The Company's revolving line of credit is subject to floating rates. The floating rate debt is subject to interest rate cash flow risk, as the required cash flows to service the debt will fluctuate as a result of changes in market rates. As at May 31, 2019, the increase or decrease in (loss) income before taxes for each 1% change in interest rates on floating rate debt amounts to approximately \$6,850 (2018 - \$7,760). The related disclosures regarding these debt instruments are included in Note 10 of these condensed consolidated interim financial statements.

15. Capital Disclosures

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

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

The Company is not subject to externally imposed capital requirements and the Company's overall strategy with respect to capital risk management remains unchanged from the year ended February 28, 2019.