



California Nanotechnologies Corp.
Condensed Consolidated Interim Financial Statements
For the three months ended May 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 three months ended May 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 May 31, 2024 and the interim condensed consolidated statements of loss, comprehensive loss, changes in equity and cash flows for the three months ended May 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	May 31, 2024 (Unaudited)	February 29, 2024 (Audited)
ASSETS			
Current assets			
Cash		\$ 484,364	\$ 841,352
Accounts receivable		966,943	432,982
Prepaid expenses and deposits		1,433,059	718,212
Total current assets		2,884,366	1,992,546
Equipment	6	158,543	155,469
Right-of-use asset	6	2,018,615	206,456
Leasehold Improvements	6	10,469	
Intangible assets	7	3,538	3,682
Total assets		\$ 5,075,531	\$ 2,358,153
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		\$ 473,582	\$ 263,964
Deferred revenue		17,500	-
Share purchase warrants		599,445	741,274
Current lease liability	8	254,197	22,682
Advances from related party		728,568	-
Total current liabilities		2,073,292	1,027,920
Non-current lease liability	8	1,843,411	205,693
Advances from related party	5	250,000	978,568
Total liabilities		4,166,703	2,212,181
Shareholders' equity			
Share capital	10	3,389,295	3,428,983
Contributed surplus	12	706,802	685,446
Deficit		(3,187,269)	(3,883,311)
Total shareholders' equity/(deficit)		908,828	145,972
Total liabilities and shareholders' equity		\$ 5,075,531	\$ 2,358,153

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.
Consolidated Statements of Income and Comprehensive Income
United States Dollars
Unaudited

	Note	For the three months ended May 31, 2024	For the three months ended May 31, 2023
Revenue		\$ 1,748,826	\$ 509,288
Cost of goods sold		599,153	225,565
Gross profit		1,149,673	283,723
Expenses			
Advertising and promotion		31,780	19,792
Depreciation and amortization	6, 7	115,546	36,165
Consulting		53,149	17,400
Office		32,761	17,014
Professional fees		37,888	19,500
Repairs and maintenance		290	2,213
Salaries, wages, and benefits		197,359	61,800
Supplies		56,214	24,087
Travel and entertainment		13,629	9,364
Share-based compensation	12	21,355	11,711
Total Expenses		559,971	219,046
Income from operations		589,702	64,677
Other income (expense)			
Other income		28,928	100
Foreign exchange (loss)		(1,066)	-
Interest expense		(63,351)	(28,510)
Unrealized gain-share purchase warrants	10	141,829	-
Income before taxes		696,042	36,267
Income tax expense		-	800
Net income/(loss) and comprehensive loss		696,042	35,467
Income/(loss)per share - basic	11	\$ 0.02	\$ 0.00
- diluted	11	0.01	0.00
Weighted average shares outstanding-basic	11	44,202,554	31,803,750
- diluted	11	47,654,781	33,490,413

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
Balance at February 28, 2023		\$ 2,942,566	\$ 375,274	\$ (4,264,989)	\$ (947,149)
Share based compensation			11,711		11,711
Net income and comprehensive income				35,467	35,467
Balance at May 31, 2023		\$ 2,942,566	\$ 386,985	\$ (4,229,522)	\$ (899,971)
Balance at February 28, 2024		\$ 3,343,837	\$ 685,447	\$ (3,883,311)	\$ 145,973
Share-based compensation	12	-	21,355	-	21,355
Warrants exercised	12	45,458			45,458
Net income and comprehensive income		-	-	696,042	696,042
Balance at May 31, 2024		\$ 3,389,295	\$ 706,802	\$ (3,187,269)	\$ 908,828

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 three months ended May 31, 2024 and May 31, 2023

	Note	2024	2023
Cash flows from operating activities			
Net income/(loss) for the year		\$ 696,042	\$ 35,467
Adjustments for:			
Depreciation and amortization	6, 7	115,546	36,165
Interest expense, net		47,056	28,510
Unrealized loss on share purchase warrants	10	(141,829)	-
Share-based compensation	4,12	21,355	11,711
		738,170	111,853
Net change in non-cash working capital items			
Accounts receivable		(533,961)	(157,712)
Prepaid expenses and deposits		(714,847)	51,856
Accounts payable and accrued liabilities		227,118	(62,764)
Net cash from operating activities		(283,520)	(56,767)
Cash flows used/from for financing activities			
Proceeds from exercised warrants		45,458	-
Finance costs		-	(23,021)
Repayment of lease liability	8	(75,270)	(10,500)
Net cash used/from financing activities		(29,812)	(33,521)
Investing activities			
Purchase of equipment & leasehold improvements	6	(43,656)	(11,456)
Net cash used for investing activities		(43,656)	(11,456)
Increase/(Decrease) in cash		(356,988)	(101,744)
Cash, beginning of year		841,352	216,041
Cash, end of period		\$ 484,364	\$ 114,297

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 three months ended May 31, 2024 and 2023

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 three months ended May 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 900 - 517 - 10th Avenue S.W., Calgary, Alberta T2R 0A8. Since the date of the reverse takeover, the Company has been devoted to the development of nanocrystalline materials through grain size reduction. The advantages of these materials include improved strength and ductility. The Company's target markets are Aerospace, Defense, Automotive, Medical and Sports and Recreation. Since the most significant portion of the Company's operations is located in the United States and its functional currency is denominated in United States (“U.S.”) dollars, these consolidated financial statements are presented in U.S. dollars. The Company is listed for trading on the TSX Venture Exchange under the symbol CNO and in the U.S. on the OTCQB under the symbol CANOF. These consolidated financial statements were authorized for issue in accordance with a resolution by the Board of Directors on July 8, 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 \$3,187,269 and an amount of \$728,568 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 three months ended May 31, 2024 and May 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 three months ended May 31, 2024 and 2023

(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.

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

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 three months ended May 31, 2024 was \$99,425 (2023 - \$25,927).

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

5. Related party transactions

- (a) Advances from related party are from a related entity that owns 16.6% (2023 – 19.1%) 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 \$728,567 requires monthly principal payments of \$10,000 with the remainder due on or before May 30, 2025.

The Company incurred and paid interest for the three months ended \$13,640 (2023 - \$20,365).

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 \$2,656 (2023 - \$2,656).

Future principal payments are as follows:

**Maturity analysis – contractual
undiscounted cash flows**

Less than one year	\$ 728,568
One to three years	<u>250,000</u>
Total undiscounted payment obligations	\$ 978,568

- (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 February 29, 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 three months ended May 31, 2024 and 2023

6. Property, plant, and equipment

	Nanotechnology equipment	Leasehold Improvements	Right-of-use assets	Totals
Cost				
At February 28, 2023	\$ 1,799,305	\$ -	\$ 278,368	\$ 1,991,868
Additions	11,456	-	-	85,805
At May 31, 2023	1,802,241	-	278,368	2,077,673
Additions	14,302	-	-	14,302
At February 29, 2024	\$ 1,813,607	\$ -	\$ 278,368	\$ 2,091,975
Additions	32,893	-	1,897,449	43,657
At May 31, 2024	\$ 1,846,500	\$ 10,764	\$ 2,175,817	\$ 4,033,081
Accumulated depreciation				
At February 28, 2023	\$ 1,540,952	\$ -	\$ 16,238	\$ 1,443,172
Depreciation	29,062	-	20,878	49,941
At May 31, 2023	1,570,014	-	44,075	1,493,113
Depreciation	117,187	-	6,959	145,024
At February 29, 2024	1,658,139	-	71,912	1,730,051
Depreciation	29,817	295	85,290	115,402
At May 31, 2024	\$ 1,687,956	\$ 295	\$ 157,202	\$ 1,845,453
Net book value				
At May 31, 2023	\$ 258,354	\$ -	\$ 234,293	\$ 492,647
At May 31, 2024	\$ 158,543	\$ 10,469	\$ 2,018,615	\$ 2,187,628

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

7. Intangible assets

Cost	Trade secrets	Use of operating rights	Customer relationships	Customer contract	Patent	Total
At February 28, 2023, February 29, 2024, May 31, 2023 and 2024	\$ 100,000	\$ 50,000	\$ 27,000	\$ 23,000	\$ 8,615	\$ 208,615
Accumulated amortization						
At February 29, 2023 Amortization	\$ 100,000 -	\$ 50,000 -	\$ 27,000 -	\$ 23,000 -	\$ 4,359 143	\$ 204,359 143
At May 31, 2023 Amortization	\$ 100,000 -	\$ 50,000 -	\$ 27,000 -	\$ 23,000 -	\$ 4,502 431	\$ 204,502 431
At February 29, 2024 Amortization	\$ 100,000 -	\$ 50,000 -	\$ 27,000 -	\$ 23,000 -	\$ 4,933 144	\$ 204,933 144
At May 31, 2024	\$ 100,000	\$ 50,000	\$ 27,000	\$ 23,000	\$ 5,077	\$ 205,077
Net book value						
At May 31, 2023	\$ -	\$ -	\$ -	\$ -	\$ 4,113	\$ 4,113
At May 31, 2024	\$ -	\$ -	\$ -	\$ -	\$ 3,538	\$ 3,538

8. Lease liability

Opening Balance	\$ 280,575
Payments	(12,900)
Interest	6,166
Lease Liability at end of period	\$ 273,841
Less current portion	(28,498)
Long term portion	\$ 245,343

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 three months ended May 31, 2024, the costs totaled \$22,962 (2023 - \$10,959) and are recorded in office expenses.

Maturity analysis – contractual undiscounted cash flows

Less than one year	\$ 38,700
One to ten years	331,100
Total undiscounted lease obligations	\$ 369,800
Unrecognized imputed interest	(95,960)
Total lease obligation	\$ 273,840

California Nanotechnologies Corp.
Notes to the Condensed Consolidated Financial Statements
United States Dollars
For the interim three months ended May 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.

Opening Balance	\$ 1,845,249
Payments	(62,371)
Interest	40,889
Lease Liability at end of period	<u>\$ 1,823,767</u>
Less current portion	<u>(225,699)</u>
Long term portion	<u>\$ 1,598,068</u>

Maturity analysis – contractual undiscounted cash flows

Less than one year	\$ 377,969
One to ten years	1,978,442
Total undiscounted lease obligations	<u>\$ 2,356,411</u>
Unrecognized imputed interest	<u>(532,644)</u>
Total lease obligation	<u>\$ 1,823,767</u>

9. Compensation of key management personnel

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

	<u>May 31, 2024</u>	<u>May 31, 2023</u>
Remuneration	\$ 104,134	\$ 55,038
Share-based payments	11,669	6,025
	<u>\$, 115,803</u>	<u>\$ 61,063</u>

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

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

10. Share capital

(a) Authorized:

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

(b) Issued:

	<u>Number</u>	<u>Amount in US \$</u>
Total issued and outstanding, February 29, 2024	41,831,550	\$ 3,343,837
Warrants exercised	252,500	45,458
Issued and outstanding, May 31, 2024	<u>42,084,050</u>	<u>\$ 3,389,295</u>

⁽ⁱ⁾ 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 29, 2024	3,888,900	\$ -
Exercised warrants	(252,500)	576,991
Unrealized (gain)/loss on share purchase warrants	-	22,454
Issued and outstanding, May 31, 2024	<u>3,636,400</u>	<u>\$ 599,445</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 May 31, 2024, the fair value of outstanding share purchase warrants with exercise prices in amounted to US \$599,445.

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 three months ending May 31, 2024, the change in fair value was US \$141,829. Upon exercise, the fair value of share purchase warrants is transferred to the equity section of the financial statements.

(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.

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

10. Share capital-continued

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

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	3,180,000	\$ 0.07
Granted	2,080,000	0.175
Forfeited	(10,000)	0.05
Exercised	(1,050,000)	0.05
Balance, February 29, 2024 & May 31, 2024	4,200,000	\$ 0.13

During the three months ended May 31, 2024, the Company recorded \$21,355 in share-based compensation expense (2023 - \$46,262). The weighted average fair value of the options granted during the three months ended May 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%

The following tables summarize information about stock options outstanding at May 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 - 0.175	4,200,000	3.4	\$ 0.18	2,063,328	\$ 0.11

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

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 - 0.13	3,180,000	2.5	\$ 0.07	1,686,664	\$ 0.06

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

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.

2,063,327 (2023 – 1,686,663) options and 1,388,900 warrants (2023 – nil) were included in calculating the weighted-average number of diluted common shares outstanding for the three months ended May 31, 2024.

12. Contributed surplus

	<u>May 31, 2024</u>	<u>May 31, 2023</u>
Balance, beginning of year	\$ 685,447	\$ 375,274
Share-based compensation (12©)	21,355	11,711
Balance, end of year	\$ 706,802	\$ 386,985

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>May 31, 2024</u>		<u>May 31, 2023</u>	
	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Carrying Value</u>	<u>Fair Value</u>
At FVTPL				
Cash	\$ 484,364	\$ 484,364	\$ 114,297	\$ 114,297
Share purchase warrants	599,445	599,445	-	-
At amortized cost				
Accounts receivable	966,943	966,943	333,266	333,266
Accounts payable and accrued liabilities	491,082	491,082	341,764	341,764
Interest payable	-	-	154,634	154,634
Advances from related party	978,568	978,568	1,175,522	\$1,175,522

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.

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

13. Financial instruments-continued

Level 3 Valuations in this level are those with inputs for the assets or liabilities that are not based on observable market date.

There have been no transfers during the three months ended May 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 May 31, 2024, the Company had a working capital \$811,074 (2023 – deficiency \$1,149,273).

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

May 31, 2024	≤ 1 year	> 1 year ≤ 3 years	> 3 years ≤ 4 years	> 5 years	Total
Accounts payable and accrued liabilities	\$ 473,582	\$ -	\$ -	\$ -	\$ 473,582
Lease liability	254,197	597,435	780,593	465,383	2,097,608
Advances from related party	728,568	250,000	-	-	978,568
Total	\$1,456,347	\$ 847,435	\$780,593	\$ 465,383	\$ 3,549,758
<hr/>					
May 31, 2023	≤ 1 year	> 1 year ≤ 3 years	> 3 year ≤ 4 years	> 5 years	Total
Accounts payable and accrued liabilities	\$ 225,502	\$ -	\$ -	\$ -	\$ 225,502
Deferred revenue	116,263	-	-	-	116,263
Lease Liability	21,207	48,568	27,752	146,573	244,100
Advances from related party	30,000	1,145,522	-	-	1,175,522
Total	\$ 392,972	\$ 1,194,090	\$ 27,752	\$ 146,573	\$ 1,761,387

California Nanotechnologies Corp.
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13. Financial instruments—continued

Foreign currency risk

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

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

	<u>U.S. Dollar May 31, 2024</u>	<u>U.S. Dollar May 31, 2023</u>
Accounts receivable	\$ 4,974	\$ 4,772
Accounts payable and accrued liabilities	32,339	33,108

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

	<u>Impact on Net Income</u>
U.S. Dollar Exchange Rate – 10% increase	\$ 2,737
U.S. Dollar Exchange Rate – 10% decrease	(2,737)

Revenue concentration and credit risk

For the three months ended May 31, 2024, the Company was engaged in contracts for products with three (2023 – three) customer(s) in excess of 10% of revenue, which accounted for \$1,541,849 (2023 - \$253,305) or 88% (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. Two (2023 - two) customers had an outstanding balance in excess of 10% of accounts receivable, which accounted for \$662,830 (2023 - \$135,925) or 69% (2023 – 41%) 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
May 31, 2024	\$ 966,943	\$ 598,342	\$ 120,155	\$ 165,309	\$ 8,600	\$ 74,537
May 31, 2023	\$ 333,266	\$ 251,028	\$ 28,900	\$ 24,520	\$ 12,130	\$ 16,688

As at May 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.

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14. Capital disclosures

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

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

The Company is not subject to externally imposed capital requirements and the Company's overall strategy with respect to capital risk management remains unchanged for the three months ended May 31, 2024.

15. Subsequent events

In June 2024, the company made a payment of \$50,000 toward the outstanding principal balance of the related party debt, bringing the balance due to \$928,568.