



California Nanotechnologies Corp.
Condensed Consolidated Interim Financial Statements
For the three and nine months ended November 30, 2023 and 2022
(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 nine months ended November 30, 2023 and 2022.

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 November 30, 2023 and the interim condensed consolidated statements of loss, comprehensive loss, changes in equity and cash flows for the nine months ended November 30, 2023 and 2022 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	November 30, 2023 (Unaudited)	February 28, 2023 (Audited)
ASSETS			
Current assets			
Cash		\$ 1,128,419	\$ 216,041
Accounts receivable		712,654	175,554
Prepaid expenses and deposits		149,742	148,148
Total current assets		1,990,815	539,743
Related party receivable	5	250,904	-
Equipment	6	184,875	258,354
Right-of-use asset	6	213,416	234,293
Intangible assets	7	3,826	4,256
Total assets		\$ 2,643,836	\$ 1,036,646
LIABILITIES AND SHAREHOLDERS' DEFICIT			
Current liabilities			
Accounts payable and accrued liabilities		\$ 362,296	\$ 228,516
Deferred revenue		10,000	176,013
Interest payable		7,518	154,634
Current lease liability	8	22,179	20,735
Total current liabilities		401,993	579,898
Non-current lease liability	8	211,555	228,375
Share purchase warrants	10	542,871	-
Advances from related party	5	1,098,723	1,175,522
Total liabilities		2,255,142	1,983,795
Shareholders' deficit			
Share capital	10	3,462,854	2,942,566
Contributed surplus	12	427,791	375,274
Deficit		(3,501,951)	(4,264,989)
Total shareholders' equity/(deficit)		388,694	(947,149)
Total liabilities and shareholders' equity/(deficit)		\$ 2,643,836	\$ 1,036,646

Going concern 2

On behalf of the Board:

“signed” Sebastien Goulet
Director

“signed” Roger Dent
Director

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

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

	Note	For the nine months ended November 30, 2023	For the nine months ended November 30, 2022	For the three months ended November 30, 2023	For the three months ended November 30, 2022
Revenue		\$ 2,354,453	\$ 1,019,570	\$ 1,159,234	\$ 418,422
Cost of goods sold		752,612	317,676	380,493	126,599
Gross profit		1,601,841	701,894	778,741	291,823
Expenses					
Advertising and promotion		86,267	31,690	41,491	13,676
Depreciation and amortization	6, 7	109,089	105,565	36,486	35,288
Bad debt		10,563	-	10,563	-
Consulting		87,932	810	44,052	-
Office		67,214	50,384	23,627	18,268
Professional fees		133,167	71,011	87,151	28,247
Repairs and maintenance		2,213	6,148	-	-
Salaries, wages, and benefits		286,472	175,613	119,711	59,385
Supplies		70,696	57,620	18,911	22,619
Travel and entertainment		41,924	4,896	21,193	4,238
Share-based compensation	12	72,698	17,396	47,731	5,799
Total Expenses		968,235	521,133	450,916	187,520
Income from operations		633,606	180,761	327,825	104,303
Other income (expense)					
Other income/(expense)		12,631	6,954	10,730	(81)
Foreign exchange (loss)		3,880	473	3,914	-
Interest expense		(85,187)	(98,813)	(28,280)	(39,421)
Unrealized gain-share purchase warrants	10	198,973	-	198,973	-
Income before taxes		763,903	89,375	513,162	64,801
Income tax expense		865	800	(735)	-
Net income/(loss) and comprehensive loss		763,038	88,575	513,897	64,801
Income/(loss)per share - basic	11	\$ 0.02	\$ nil	\$ 0.02	\$ nil
- diluted	11	0.02	nil	0.01	nil
Weighted average shares outstanding-basic	11	32,930,112	31,803,750	32,930,112	31,803,750
- diluted	11	35,237,742	32,590,917	35,237,742	32,590,917

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, 2022		\$ 2,942,566	\$ 329,012	\$ (4,344,753)	\$ (1,073,175)
Share-based compensation	12	-	17,396	-	17,396
Net loss and comprehensive loss		-	-	88,575	88,575
Balance at November 30, 2022		\$ 2,942,566	\$ 346,408	\$ (4,256,178)	\$ (967,204)
	Note	Share capital	Contributed surplus	Comprehensive income/(loss)	Total
Balance at February, 2023		\$ 2,942,566	\$ 375,274	\$ (4,264,989)	\$ (947,149)
Stock options exercised	12	34,045	(20,181)	-	13,864
Share-based compensation	12	-	72,698	-	72,698
Share issuance from private placement	11	354,654	-	-	354,654
Share issuance for debt exchange	11	131,589	-	-	131,589
Net income and comprehensive income		-	-	763,038	763,038
Balance at November 30, 2023		\$ 3,462,854	\$ 427,791	\$ (3,501,951)	\$ 388,694

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 nine months ended November 30, 2023 and November 30,
2022

	Note	2023	2022
Cash flows from operating activities			
Net income/(loss) for the year		\$ 763,038	\$ 88,575
Adjustments for:			
Depreciation and amortization	6, 7	109,089	105,565
Interest expense, net		15,219	17,442
Unrealized gain on share purchase warrants		(198,973)	
Share-based compensation	12	72,698	17,396
		761,071	228,978
Net change in non-cash working capital items			
Accounts receivable		(537,101)	143,709
Prepaid expenses and deposits		(1,594)	(56,464)
Accounts payable and accrued liabilities		(24,560)	85,984
Related party advances		-	25,827
		197,816	428,034
Cash flows used/from for financing activities			
Issuance of stock		1,096,500	-
Stock options exercised		13,864	-
Payments to related party	5	(100,000)	(7,083)
Related party advances	5	(250,000)	-
Interest on equipment loan		-	(1,028)
Repayments of bank indebtedness		-	(125,031)
Repayment of lease liability	8	(31,500)	(31,500)
		728,864	(164,642)
Investing activities			
Purchase of equipment	6	(14,302)	(22,772)
		(14,302)	(22,772)
Increase/(Decrease) in cash		912,378	240,620
Cash, beginning of year		216,041	51,332
Cash, end of period		\$ 1,128,419	\$ 291,952

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

California Nanotechnologies Corp.
Notes to the Consolidated Financial Statements
United States Dollars
For the interim nine months ended November 30, 2023 and 2022

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 nine months ended November 30, 2023 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 January 11, 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 a net income and comprehensive income for the year of \$763,038 (2022 - \$88,575). In addition, the Company has an accumulated deficit of \$3,501,951 (2022 - \$4,256,178) and a working capital of \$1,588,822 (2022 – \$173,138). 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. 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 impact from the COVID-19 pandemic on operations and 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 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 November 30, 2023.

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 years ended February 28, 2023 and 2022. These policies have been consistently applied to each of the periods presented.

California Nanotechnologies Corp.
Notes to the Consolidated Financial Statements
United States Dollars

For the interim nine months ended November 30, 2023 and 2022

(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 condensed 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 nine months ended November 30, 2023 was \$110,468 (2022 - \$38,543).

California Nanotechnologies Corp.
Notes to the Consolidated Financial Statements
United States Dollars

For the interim nine months ended November 30, 2023 and 2022

5. Related party transactions

- a) Advances from related party are from a related entity that owns 16.6% of the Company's shares. The advances bore interest at 2% per annum through December 31, 2018, and 2.89% through May 31, 2022. The repayment terms were revised in the Demand Note, Amended dated May 24, 2022. The note balance of \$1,200,312 consisted of principal of \$904,879 plus accrued interest of \$295,433. Per the terms of the amendment, the annual interest rate increased to 7.5%, with monthly interest payments of \$7,501.95 to begin June 1, 2022. Additionally, monthly principal payments of \$10,000 were scheduled to begin on March 30, 2023. The company made principal payments in January and September, 2023, of \$120,000 and \$100,000 respectively. As part of the shares for debt settlement, the company cancelled debt of \$131,589 (CAD \$180,000) through the issuance of 1,200,000 common shares bringing the note balance to \$848,723. Replacing the Demand Note Amended, dated May 24, 2022, was a new Term Note dated September 8, 2023. The Term Note balance of \$1,080,167.42 consists of principal plus accrued interest, and is considered a long-term liability due on or before May 30, 2025. The loan is secured by all the assets of the Company.

Interest was paid during the nine months ended November 30, 2023 according to the terms of the Demand Note Amended, in the amount of \$61,095 (2022 - \$22,506). Accrued interest and interest expense for the nine months ended November 30, 2023 was \$7,518 (November 30, 2022 - \$306,331), and \$61,095 (2022-\$78,807) respectively. Also included in the Term Note dated September 8, 2023 is the principal paid by the related party in the amount of \$250,000 on March 16, 2020. As a result of the bank calling its line of credit, the \$250,000 payment was part of the guarantee agreement on the debt instrument. Interest expense of 4.25% on the \$250,000 debt for the nine months ended November 30, 2023 was \$7,969 (2022-\$7,969). This related entity had guaranteed the Company's long-term primary credit facility and had no other transactions with the Company during the nine months ended November 30, 2023 (2022-nil). On August 1, 2022 the company entered into a lease agreement with the related entity. The lease has been disclosed in note 8.

Future principal payments are as follows:

**Maturity analysis – contractual
undiscounted cash flows**

Less than one year	\$ -
One to three years	<u>1,098,723</u>
Total undiscounted payment obligations	\$ 1,098,723

- b) As part of the October 2023 private placement stock issuance, the Company entered into an agreement with Eric Eyerman, CEO & Director. In exchange for 2,250,000 stock units, 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.

Related party receivable:

Principal	\$ 250,000
Interest	<u>904</u>
Total due	\$ 250,904

California Nanotechnologies Corp.
Notes to the Consolidated Financial Statements
United States Dollars

For the interim nine months ended November 30, 2023 and 2022

6. Property, plant, and equipment

	Nanotechnology equipment	Roof coating equipment	Right-of-use assets	Totals
Cost				
At February 28, 2022	\$ 1,704,980	\$ 8,520	\$ 278,368	\$ 1,991,868
Additions	22,772	-	-	22,772
At November 30, 2022	\$ 1,727,752	\$ 8,520	\$ 278,368	\$ 2,014,640
Additions	63,033	-	-	63,033
At February 28, 2023	1,790,785	8,520	278,368	2,077,673
Additions	14,302	-	-	14,302
At November 30, 2023	\$ 1,805,087	\$ 8,520	\$ 278,368	\$ 2,091,975
Accumulated depreciation				
At February 28, 2022	\$ 1,418,414	\$ 8,520	\$ 16,238	\$ 1,443,172
Depreciation	84,257	-	20,878	105,135
At November 30, 2022	\$ 1,502,671	\$ 8,520	\$ 37,116	\$ 1,548,307
Depreciation	86,132	-	20,878	107,010
At February 28, 2023	1,532,431	8,520	44,075	1,585,026
Depreciation	87,781	-	20,877	108,658
At November 30, 2023	\$ 1,620,212	\$ 8,520	\$ 64,952	\$ 1,693,684
Net book value				
At November 30, 2022	\$ 225,081	\$ -	\$ 241,252	\$ 466,333
At November 30, 2023	\$ 184,875	\$ -	\$ 213,416	\$ 398,289

California Nanotechnologies Corp.
Notes to the Consolidated Financial Statements
United States Dollars

For the interim nine months ended November 30, 2023 and 2022

7. Intangible assets

	Trade secrets	Use of operating rights	Customer relationships	Customer contract	Patent	Total
Cost						
At February 28, 2022, November 30, 2022 and 2023	\$ 100,000	\$ 50,000	\$ 27,000	\$ 23,000	\$ 8,615	\$ 208,615
Accumulated amortization						
At February 28, 2022	\$ 100,000	\$ 50,000	\$ 27,000	\$ 23,000	\$ 3,784	\$ 203,784
Amortization	-	-	-	-	431	431
At November 30, 2022	\$ 100,000	\$ 50,000	\$ 27,000	\$ 23,000	\$ 4,215	\$ 204,215
Amortization	-	-	-	-	144	144
At February 28, 2023	\$ 100,000	\$ 50,000	\$ 27,000	\$ 23,000	\$ 4,359	\$ 204,359
Amortization	-	-	-	-	430	430
At November 30, 2023	\$ 100,000	\$ 50,000	\$ 27,000	\$ 23,000	\$ 4,789	\$ 204,789
Net book value						
At November 30, 2022	\$ -	\$ -	\$ -	\$ -	\$ 4,400	\$ 4,400
At November 30, 2023	\$ -	\$ -	\$ -	\$ -	\$ 3,826	\$ 3,826

8. Lease Liability

Opening Balance	\$ 249,111
Payments	(31,500)
Interest	16,123
Lease Liability at end of period	\$ 233,734
Less current portion	(22,179)
Long term portion	\$ 211,555

In 2022, the Company entered into an agreement with Omni-Lite 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 \$278,368, using an incremental borrowing rate of 9%. The Company is responsible for its own maintenance and operating costs, including insurance. For the nine months ended November 30, 2023, the costs totaled \$28,925 (2022 \$18,390) and are recorded in office expenses.

Maturity analysis – contractual undiscounted cash flows

Less than one year	\$ 42,000
One to ten years	280,000
Total undiscounted lease obligations	\$ 322,000
Unrecognized imputed interest	(88,266)
Total lease obligation	\$ 233,734

California Nanotechnologies Corp.
Notes to the Consolidated Financial Statements
United States Dollars
For the interim nine months ended November 30, 2023 and 2022

9. Compensation of key management personnel

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

	November 30, 2023	November 30, 2022
Remuneration	\$ 159,654	\$ 112,500
Share-based payments	41,857	12,249
	\$ 201,511	\$ 124,749

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

10. Share capital

(a) Authorized:

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

(b) Issued:

	Number	Amount in US \$
Total issued and outstanding, February 28, 2023	31,803,750	\$ 2,942,566
Issued for private placement ⁽ⁱ⁾	10,000,000	354,654
Issued for debt exchange	1,200,000	131,589
Stock options exercised	375,000	34,045
Issued and outstanding, November 30, 2023	43,378,750	\$ 3,462,854

On October 30, 2023, the company issued 10,000,000 shares through a private placement, at US \$0.1096 (CAD \$0.15) per share unit, for total proceeds of US \$1,096,498 (CAD \$1,500,000). 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\$ 741,844 (CAD \$1,025,751). 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 \$82,064, which included legal fees of US\$ 62,466 and finder’s fees of US\$ 16,553.

Warrants:

	Number	Amount
Total issued and outstanding, February 28, 2023	-	\$ -
Issued warrants	5,000,000	741,844
Unrealized gain/(loss) on share purchase warrants	-	(198,973)
Issued and outstanding, November 30, 2023	5,000,000	\$ 542,871

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 November 30, 2023, the fair value of outstanding share purchase warrants with exercise prices in amounted to US \$ 741,844, (CAD \$1,026,205).

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 nine months ending November 30, 2023, the change in fair value was US \$198,973. Upon exercise, the fair value of share purchase warrants is

California Nanotechnologies Corp.
Notes to the Consolidated Financial Statements
United States Dollars
For the interim nine months ended November 30, 2023 and 2022

transferred to the equity section of the financial statements.

The private placement proceeds of US \$1,096,498 less the issued warrants value of US \$741,844, equals the issued for private placement ⁽ⁱ⁾ amount of US \$354,654.

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

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

The Company's stock option plan is for directors, officers, employees, and consultants. Stock options can be issued up to a maximum number of common shares equal to 20% of the issued and outstanding common shares of the Company. The exercise price of options granted is not less than the market price of the common shares traded and along with the vesting period, is determined by the Board of Directors. Options granted have a term of up to 5 years.

	Number of Options	Weighted Average price (CAD)
Balance, February 28, 2022	2,445,000	\$ 0.06
Expired	(25,000)	0.14
Forfeited	(150,000)	0.05
Granted	910,000	0.10
Balance, February 28, 2023	3,180,000	\$ 0.07
Granted	2,080,000	0.175
Exercised	(375,000)	0.05
Balance, November 30, 2023	4,885,000	\$ 0.12

During the nine months ended November 30, 2023, the Company recorded \$72,698 in share-based compensation expense (2022 - \$17,395). The weighted average fair value of the options granted during the nine months ended November 30, 2023, 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 (%)	4.99

California Nanotechnologies Corp.
Notes to the Consolidated Financial Statements
United States Dollars

For the interim nine months ended November 30, 2023 and 2022

The following tables summarize information about stock options outstanding at November 30, 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 - 0.175	4,885,000	3.3	\$ 0.12	1,871,663	\$ 0.07

The following tables summarize information about stock options outstanding at November 30, 2022:

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 - 0.095	2,420,000	2.23	\$ 0.05	1,591,667	\$ 0.05

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.

1,871,663 options and 435,967 warrants were included in calculating the weighted-average number of diluted common shares outstanding for the nine months ended November 30, 2023, and 787,167 for the nine months ended November 30, 2022.

12. Contributed surplus

	<u>November 30, 2023</u>	<u>November 30, 2022</u>
Balance, beginning of year	\$ 375,274	\$ 329,012
Share-based compensation (12©)	72,698	17,396
Options exercised	<u>(20,181)</u>	<u>-</u>
Balance, end of year	\$ 427,791	\$ 346,408

California Nanotechnologies Corp.
Notes to the Consolidated Financial Statements
United States Dollars

For the interim nine months ended November 30, 2023 and 2022

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.

	November 30, 2023		February 28, 2023	
	Carrying Value	Fair Value	Carrying Value	Fair Value
At FVTPL				
Cash	\$ 1,128,419	\$ 1,128,419	\$ 216,041	\$ 216,041
Share purchase warrants	542,871	542,871	-	-
At amortized cost				
Accounts receivable	712,654	712,654	175,554	175,554
Accounts payable and accrued liabilities	362,296	362,296	404,529	404,529
Interest payable	7,518	7,518	154,634	154,634
Advances from related party	1,098,723	1,098,723	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.
- 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 nine months ended November 30, 2023 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.

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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 November 30, 2023, the Company had a working capital \$1,588,822 (2022 - \$173,138).

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

November 30, 2023	≤ 1 year	> 1 year ≤ 3 years	> 3 years ≤ 4 years	> 5 years	Total
Accounts payable and accrued liabilities	\$ 362,296	\$ -	\$ -	\$ -	\$ 362,296
Deferred revenue	10,000	-	-	-	10,000
Lease liability	22,179	50,795	60,771	99,989	233,734
Advances from related party	-	1,098,723	-	-	1,098,723
Total	\$ 394,475	\$ 1,149,518	\$ 60,771	\$ 99,989	\$ 1,704,753
<hr/>					
November 30, 2022	≤ 1 year	> 1 year ≤ 3 years	> 3 year ≤ 4 years	> 5 years	Total
Accounts payable and accrued liabilities	\$ 275,477	\$ -	\$ -	\$ -	\$ 275,477
Lease Liability	20,277	46,439	26,535	160,761	254,012
Advances from related party	90,000	1,360,312	-	-	1,450,312
Total	\$ 385,754	\$1,406,751	\$ 26,535	\$ 160,761	\$ 1,979,801

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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 November 30, 2023, 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.S. Dollar November 30, 2023	U.S. Dollar November 30, 2022
Accounts receivable	\$ 6,006	\$ 3,694
Accounts payable and accrued liabilities	36,304	30,278

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:

	Impact on Net Income
U.S. Dollar Exchange Rate – 10% increase	\$ 3,030
U.S. Dollar Exchange Rate – 10% decrease	(3,030)

Revenue concentration and credit risk

For the nine months ended November 30, 2023, the Company was engaged in contracts for products with one (2022 – two) customer(s) in excess of 10% of revenue, which accounted for \$1,022,275 (2022 - \$292,984) or 43% (2022 – 27%) 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. Three (2022 - two) customers had an outstanding balance in excess of 10% of accounts receivable, which accounted for \$476,481 (2022 - \$112,016) or 71% (2022 - 67%) of the Company's total accounts receivable balance. The table below provides an analysis of the current and past due accounts receivables.

	Total	Current	≤ 30 days	> 30 days ≤ 60 days	>60 days ≤ 90 days	> 90 days
November 30, 2023	\$ 712,654	\$ 531,321	\$ 58,512	\$ 58,970	\$ 31,765	\$ 32,086
November 30, 2022	\$ 207,583	\$ 174,104	\$ 12,585	\$ 3,404	\$ 11,415	\$ 6,075

As at November 30, 2023, 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 nine months ended November 30, 2023.