



**California Nanotechnologies Corp.**  
**Consolidated Financial Statements**  
For the years ended February 28, 2023 and February 28, 2022  
(in United States Dollars)

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To the Shareholders of California Nanotechnologies Corp.:

## Opinion

We have audited the consolidated financial statements of California Nanotechnologies Corp. (the "Company"), which comprise the consolidated statements of financial position as at February 28, 2023 and February 28, 2022, and the consolidated statements of income and comprehensive income, changes in shareholders' deficit and cash flows for the year ended then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at February 28, 2023 and February 28, 2022, and its consolidated financial performance and its consolidated cash flows for the year ended then ended in accordance with International Financial Reporting Standards.

## Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Material Uncertainty Related to Going Concern

We draw attention to Note 2 in the consolidated financial statements, which indicates that as of February 28, 2023 the Company has an accumulated deficit and a working capital deficiency. As stated in Note 2, these events or conditions, along with other matters as set forth in Note 2, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

## Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Except for the matter described in the Material Uncertainty Related to Going Concern section, we have determined that there are no key audit matters to communicate in our report.

## Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

## Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Stephen Bonnell.

Calgary, Alberta

June 27, 2023

*MNP LLP*

Chartered Professional Accountants

**California Nanotechnologies Corp.**  
**Consolidated Statements of Financial Position**  
**United States Dollars**  
**As at February 28, 2023 and February 28, 2022**

As at	Note	2023	2022
<b>ASSETS</b>			
<b>Current assets</b>			
Cash		\$ 216,041	\$ 51,332
Accounts receivable		175,554	351,292
Prepaid expenses and deposits		148,148	2,893
<b>Total current assets</b>		<b>539,743</b>	<b>405,517</b>
Equipment	6	258,354	286,566
Right-of-use asset	6	234,293	262,130
Intangible assets	7	4,256	4,831
<b>Total assets</b>		<b>\$ 1,036,646</b>	<b>\$ 959,044</b>
<b>LIABILITIES AND SHAREHOLDERS' DEFICIT</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities		\$ 228,516	\$ 188,893
Deferred revenue		176,013	-
Interest payable	5	154,634	146,593
Bank indebtedness	8	-	133,142
Current lease liability	9	20,735	18,958
Advances from related party	5	1,175,522	1,295,522
<b>Total current liabilities</b>		<b>1,755,420</b>	<b>1,783,108</b>
Non-current lease liability	9	228,375	249,111
<b>Total liabilities</b>		<b>1,983,795</b>	<b>2,032,219</b>
<b>Shareholders' deficit</b>			
Share capital	12	2,942,566	2,942,566
Contributed surplus	14	375,274	329,012
Deficit		(4,264,989)	(4,344,753)
<b>Total shareholders' deficit</b>		<b>(947,149)</b>	<b>(1,073,175)</b>
<b>Total liabilities and shareholders' deficit</b>		<b>\$ 1,036,646</b>	<b>\$ 959,044</b>

Going concern 2

On behalf of the Board of Directors:

"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**  
**For the years ended February 28, 2023 and February 28, 2022**

	Note	2023	2022
<b>Revenue</b>		\$ 1,381,934	\$ 1,081,500
<b>Cost of goods sold</b>		383,754	324,184
<b>Gross margin</b>		998,180	757,316
<b>Expenses</b>			
Advertising and promotion		40,205	37,269
Depreciation and amortization	6, 7	142,429	129,016
Bad debt		10,659	423
Consulting		14,262	1,183
Office		68,123	28,347
Professional fees		90,791	71,764
Repairs and maintenance		7,616	-
Salaries, wages and benefits		299,877	207,785
Supplies		83,492	55,792
Travel and entertainment		5,206	5,671
Share-based compensation	12	46,262	10,084
<b>Total Expenses</b>		808,922	547,334
<b>Income from operations</b>		189,258	209,982
<b>Other income (expense)</b>			
Other income	16	7,062	153,816
Other expenses	16	(139)	(87,775)
Foreign exchange loss		(698)	(47)
Interest expense	5, 9	(111,675)	(75,376)
<b>Income before taxes</b>		83,808	200,600
Income tax expense		4,044	-
<b>Net income and comprehensive income</b>		79,764	200,600
<b>Income per share - basic</b>	13	\$ 0.00	\$ 0.01
- diluted	13	0.00	0.01
<b>Weighted average shares outstanding - basic</b>	13	31,803,750	31,552,198
- diluted	13	32,776,570	32,054,906

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

**California Nanotechnologies Corp.**  
**Consolidated Statements of Changes in Shareholders' Deficit**  
**United States Dollars**  
**For the years ended February 28, 2023 and February 28, 2022**

	Note	Share capital	Contributed surplus	Comprehensive income/(loss)	Total
Balance at February 28, 2021		\$ 2,902,277	\$ 335,136	\$ (4,545,353)	\$ (1,307,940)
Share-based compensation	12	-	10,084	-	10,084
Stock options exercised	12	40,289	(16,208)	-	24,081
Net income and comprehensive income		-	-	200,600	200,600
Balance at February 28, 2022		\$ 2,942,566	\$ 329,012	\$ (4,344,753)	\$ (1,073,175)
Share-based compensation	12	-	46,262	-	46,262
Net income and comprehensive income		-	-	79,764	79,764
<b>Balance at February 28, 2023</b>		<b>\$ 2,942,566</b>	<b>\$ 375,274</b>	<b>\$ (4,264,989)</b>	<b>\$ (947,149)</b>

*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 years ended February 28, 2023 and February 28, 2022**

	Note	2023	2022
<b>Cash flows from operating activities</b>			
Net income for the year		\$ 79,764	\$ 200,600
Adjustments for:			
Depreciation and amortization	6,7	142,429	129,016
Forgiveness of Paycheck Protection Loan		-	(62,600)
Interest expense	5,9	111,675	75,376
Share-based compensation	12	46,262	10,084
		<b>380,130</b>	<b>352,476</b>
Net change in non-cash working capital items			
Accounts receivable		175,738	(306,248)
Prepaid expenses and deposits		(145,255)	(380)
Income taxes payable		-	(800)
Accounts payable and accrued liabilities		215,636	59,392
Interest payable		(3,164)	599
		<b>623,085</b>	<b>143,741</b>
<b>Cash flows used for financing activities</b>			
Stock options exercised	12	-	24,081
Payments to related party	5	(120,000)	-
Proceeds from Paycheck Protection Loan		-	62,600
Interest on equipment loan		-	(10,226)
Finance costs		(77,429)	(50,948)
Repayments of bank indebtedness	8	(133,142)	(105,667)
Repayment of lease liability	9	(42,000)	(24,500)
		<b>(372,571)</b>	<b>(104,661)</b>
<b>Investing activities</b>			
Purchase of equipment	6	(85,805)	(7,721)
		<b>(85,805)</b>	<b>(7,721)</b>
<b>Increase in cash</b>		<b>164,709</b>	<b>31,359</b>
<b>Cash, beginning of year</b>		<b>51,332</b>	<b>19,973</b>
<b>Cash, end of year</b>		<b>\$ 216,041</b>	<b>\$ 51,332</b>

*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 years ended February 28, 2023 and February 28, 2022**

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**1. Incorporation and operations**

Veritek Technologies Inc. (“Veritek”) was incorporated under the laws of the Province of Alberta on May 19, 2002. On February 1, 2007, Veritek changed its name to California Nanotechnologies Corp. (the “Company” or “CalNano”) in connection with the reverse takeover with California Nanotechnologies Inc. The consolidated financial statements of the Company for the year ended February 28, 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 - 10<sup>th</sup> Avenue S.W., Calgary, Alberta T2R 0A8. Since the date of the reverse takeover, the Company has been devoted to the development of nanocrystalline materials through grain size reduction. The advantages of these materials include improved strength and ductility. The Company's target markets are Aerospace, Defense, Automotive, Medical and Sports and Recreation. Since the most significant portion of the Company's operations 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 June 27, 2023.

**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.

As of February 28, 2023 the Company has an accumulated deficit of \$4,264,989 (2022 - \$4,344,753) and a working capital deficiency of \$1,215,677 (2022 – \$1,377,591). 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 maintain 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, 2022. The principal accounting policies are set out below.

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 summarized in the following:

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

**For the years ended February 28, 2023 and February 28, 2022**

**3. Significant accounting policies - continued**

(a) Basis of consolidation

The Company has consolidated the assets, liabilities, revenues and expenses of the subsidiaries after the elimination of intercompany transactions and balances. These consolidated financial statements include the accounts of the Company, and its wholly owned subsidiaries, California Nanotechnologies Inc. and White Roof Solutions, Inc. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same period as the parent company, using consistent accounting policies.

The table below provides information relative to the Company's significant subsidiaries, including the entity's name, its jurisdiction of incorporation/formation, the percentage of securities directly or indirectly owned by the Company, and the market areas served, if applicable. The functional currency of each entity is U.S. dollars.

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

(b) Basis of measurement

These consolidated financial statements have been prepared on a going concern basis, using the historical cost convention except for share-based compensation and certain financial instruments, which are measured at fair value.

(c) Inventory

Inventory consists of raw materials and finished goods. Inventories are carried at the lower of cost and net realizable value. Cost is determined using the first-in, first-out method. The cost of finished goods comprises raw materials, direct labor, and other direct costs (based on normal operating capacity) but excludes borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business. Inventory is reviewed on a regular basis to ensure the carrying value does not exceed net realizable value. If the carrying value exceeds net realizable value, a write-down is recognized immediately. The write-down may be reversed in a subsequent period if the circumstances which caused it no longer exist.

(d) Revenue recognition

The Company recognizes revenue at a point in time from the sale of products and services when the performance obligations have been completed, control of products transfer to the customer, and collectability is reasonably assured. The consideration for product and service sales rendered is measured at the fair value of the consideration received and allocated based on their individual selling prices. The individual selling prices are determined based on the agreed upon prices at which the Company sells in separate transactions.

**California Nanotechnologies Corp.**  
**Notes to the Consolidated Financial Statements**  
**United States Dollars**  
**For the years ended February 28, 2023 and February 28, 2022**

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**3. Significant accounting policies - continued**

(d) Revenue recognition-continued

Product revenue – product revenue consists mainly of the sale of spikes to customers in the sports and recreation industry. Revenue is recognized at a point in time either when the products have been shipped to, or received by the customer, depending on the terms of the contract. Product revenue for the year end February 28, 2023 was \$1,472 (2022 - \$590).

Service revenue – service revenue consists of heat/pressure treating products through a Spark Plasma Sintering (“SPS”) machine, repair work completed on SPS machines owned by other companies and research. Service revenue is recognized at a point in time when the performance obligation has been completed and the results reported back to the customer. Service revenue for the year end February 28, 2023 was \$1,375,143 (2022 - \$961,570).

Freight revenue – Freight revenue is recognized at a point in time on contracts when the Company provides for shipping to its customer. Freight revenue for the year ended February 28, 2023 was \$5,319 (2022 - \$4,729).

Payments received in advance of the performance obligations being completed are recorded as deferred revenue. The Company does not expect to have any revenue contracts where the period between the transfer of the promised goods to the customer and payment by the customer exceeds one year. As a consequence, the Company does not adjust any of the transaction prices for the time value of money. Contract modifications with the Company’s customers could change the scope of the contract, the price of the contract, or both. A contract modification exists when the parties to the contract approve the modification in writing. Contract modifications are generally accounted for as part of the existing contract prospectively over the remaining term of the contract.

(e) Cash

Cash is composed of cash balances with U.S. banks.

(f) Equipment

Equipment is carried at historical cost less accumulated depreciation and any impairment losses. Depreciation is provided using the straight-line method and is calculated over the estimated useful life of the assets, which has been estimated as seven years for nanotechnology equipment, three years for roof coating equipment, lease term (ten years) for right of use assets.

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

(g) Intangible assets

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

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

**For the years ended February 28, 2023 and February 28, 2022**

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**3. Significant accounting policies – continued**

(g) Intangible assets-continued

Patents are recorded at cost and are amortized on a straight-line basis over a period of 15 years based on management's analysis of the market and competition. Patents represent accumulated costs and are not intended to reflect present or future values. The recoverability of these amounts is dependent upon future profitable operations.

(h) Impairment of non-financial assets

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

If the carrying amount of the asset, or its respective CGU, exceeds its estimated recoverable amount, the difference is recognized as an impairment charge.

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

(i) Provisions

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

A provision is recognized in the consolidated financial statements when the Company has a material obligation, whether existing or potential, as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If the obligation is determined to be material, then the estimated amount of the provision is determined by discounting the expected future cash outflows. At February 28, 2023, a provision of \$75,000 (2022 – \$75,000) was recognized in the consolidated financial statements.

(j) Income taxes

Income tax expense for the year consists of current and deferred tax. Deferred tax is recognized in the consolidated statements of loss and comprehensive loss, except to the extent that it relates to a business combination or items recognized in other comprehensive loss ("OCL") or directly in equity.

Taxable income differs from income as reported in the consolidated statements of income and comprehensive income. As a result, current tax is the expected tax due on taxable income less adjustments to prior periods using tax rates enacted, or substantively enacted as at the reporting date in jurisdictions where the Company operates.

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

**For the years ended February 28, 2023 and February 28, 2022**

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**3. Significant accounting policies – continued**

(j) Income taxes-continued

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

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

(k) Foreign exchange

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

Non-monetary assets that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transactions. All resulting exchange differences from translation of the functional currency into a different reporting currency are recognized as a separate component of other comprehensive income.

(l) Share-based compensation plan

The Company provides equity-settled share-based payments in the form of a share option plan to its employees, officers, directors and consultants. The Company accounts for these share options using the fair value method of accounting for share-based compensation. Under this method, the associated compensation expense is charged to net loss and comprehensive loss with a corresponding increase to contributed surplus less an estimated forfeiture rate over each vesting period (tranches) of the options granted. The forfeiture rate is based on past experience of actual forfeitures. For grants that expire or are forfeited without being exercised, the Company records a reclassification to deficit of the non-cash stock-based compensation previously recorded to contributed surplus. For grants that are exercised, the Company records a reclassification to share capital of the non-cash stock-based compensation previously recorded to contributed surplus.

At the end of each reporting period, the Company re-assesses its estimates of the number of awards that are expected to vest and recognizes the impact of the revisions in the consolidated statement of loss and comprehensive loss.

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

**California Nanotechnologies Corp.**  
**Notes to the Consolidated Financial Statements**  
**United States Dollars**  
**For the years ended February 28, 2023 and February 28, 2022**

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**3. Significant accounting policies – continued**

(m) Per share amounts

Basic income per share is calculated using the weighted average number of shares outstanding during the period. The Company follows the treasury stock method for the computation of diluted per share amounts. This method assumes the proceeds from the exercise of dilutive options and warrants are used to purchase common shares at the weighted average market price during the period. Diluted income per common share is calculated by adjusting the denominator for the effects of dilutive share purchase options and any other potential dilutive items. The effects of anti-dilutive potential units are ignored in calculating diluted income per common share. All share purchase options are considered antidilutive when the Company is in a loss position or the average exercise price of the options exceeds the average trading price of the Company's common shares.

(n) Research and development expenses

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

(o) Financial instruments

Classification and measurement of financial instruments

The Company measures its financial assets and financial liabilities at fair value on initial recognition, which is typically the transaction price unless a financial instrument contains a significant financing component. Subsequent measurement is dependent on the financial instrument's classification which in the case of financial assets, is determined by the context of the Company's business model and the contractual cash flow characteristics of the financial asset. Financial assets are classified into three categories: (1) measured at amortized cost, (2) fair value through profit and loss ("FVTPL") and (3) fair value through other comprehensive loss ("FVOCI"). Financial liabilities are subsequently measured at amortized cost, other than financial liabilities that are measured at FVTPL or designated as FVTPL where any change in fair value resulting from an entity's own credit risk is recorded as other comprehensive loss ("OCI"). The Company does not employ hedge accounting for its risk management contracts currently in place.

Amortized cost

The Company classifies its accounts receivable, bank indebtedness, accounts payable and accrued liabilities, interest payable, and advances from related party as measured at amortized cost. The contractual cash flows received from these financial assets are solely payments of principal and interest and are held within a business model whose objective is to collect the contractual cash flows. These financial assets and liabilities are initially measured at fair value plus or minus transaction costs directly attributable to the financial asset or liability. These financial assets and financial liabilities are subsequently measured at amortized cost using the effective interest method.

**3. Significant accounting policies – continued**

**FVTPL**

The Company classifies its cash as measured at FVTPL. Financial assets and liabilities classified as FVTPL are subsequently measured at fair value with changes in fair value charged immediately to the consolidated statements of income and comprehensive income. Transaction costs relating to financial instruments at FVTPL are expensed as incurred.

**Derecognition of financial instruments**

Financial assets are derecognized when the contractual rights to cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows from the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. A financial liability is derecognized when the obligation is discharged, cancelled or expired. When an existing financial liability is replaced by another from the same counterparty with substantially different terms, or the terms of an existing liability are substantially modified, it is treated as a derecognition of the original liability and the recognition of a new liability. When the terms of an existing financial liability are altered, but the changes are considered non-substantial, it is accounted for as a modification to the existing financial liability. Where a liability is substantially modified it is considered to be extinguished and a gain or loss is recognized in the consolidated statements of loss and comprehensive loss based on the difference between the carrying amount of the liability derecognized and the fair value of the revised liability. Where a liability is modified in a non-substantial way, the amortized cost of the liability is remeasured based on the new cash flows and a gain or loss is recorded in the consolidated statements of loss and comprehensive loss.

**Impairment of financial assets**

The Company recognizes loss allowances for expected credit losses ("ECLs") on its financial assets measured at amortized cost. Due to the nature of its financial assets, the Company measures loss allowances at an amount equal to expected lifetime ECLs. Lifetime ECLs are the anticipated ECLs that result from all possible default events over the expected life of a financial asset. ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive). For trade and other receivables, the Company applies the simplified approach to providing for expected losses prescribed by IFRS 9, which requires the use of the lifetime expected loss provision for all trade receivables. In estimating the expected lifetime expected loss provision, the Company considered historical Company and industry default rates as well as credit ratings of major customers. ECLs are discounted at the effective interest rate of the related financial asset. The Company does not have any financial assets that contain a financing component.

**Leases**

The Company may enter into leases in the normal course of business. Lease contracts are typically made for fixed periods and may contain a renewal option, but renewal is not considered reasonably certain. Leases are negotiated on an individual basis and each contain different terms and conditions. The Company does not have any contingent rental or sublease payments, nor any sublease income.

The Company assesses whether a contract contains a lease at the inception of a contract. A lease contract conveys the right to control the use of an identified asset for a period in exchange for consideration. Lease liabilities are recognized with corresponding right-of-use assets for all lease agreements, except for short-term leases with terms of 12 months or less and leases of low value assets, which are expensed on a straight-line basis over the lease term. Consideration in a contract is allocated to lease and non-lease components on a relative stand-alone value basis. Lease components and any associated non-lease components are accounted for as a single lease component.

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**3. Significant accounting policies – continued**

Leases-continued

Lease liabilities are initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Company's incremental borrowing rate, unless the rate implicit in the lease is readily determinable. A single incremental borrowing rate is applied to a portfolio of leases with similar characteristics. Lease payments included in the measurement of the lease liability comprise fixed (and in-substance fixed) lease payments, less any lease incentives, variable lease payments that depend on an index or rate, and payments expected under residual value guarantees and payments relating to purchase options and renewal option periods that are reasonably certain to be exercised (or periods subject to termination options that are not reasonably certain to be exercised).

Lease liabilities are subsequently measured at amortized cost using the effective interest method. Lease liabilities are remeasured, with a corresponding adjustment to the related right-of-use assets, when there is a change in variable lease payments arising from a change in an index or rate, or when the Company changes the assessment of whether to exercise renewal or termination options.

(p) Significant accounting estimates and judgments

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

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

**Judgments**

Determining CGU's

For the purpose of assessing impairment of tangible and intangible assets, assets are grouped at the lowest level of separately identified cash inflows which make up the CGU. Determination of what constitutes a CGU is subject to management judgment. The asset composition of a CGU can directly impact the recoverability of assets included within the CGU.

Deferred taxes

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



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**3. Significant accounting policies – continued**

(p) Significant accounting estimates and judgments - continued

**Estimates**

Expected credit losses

The Company's accounts receivables are typically short-term in nature and the Company recognizes an amount equal to the lifetime expected credit losses ("ECL"). The Company measures loss allowances based on historical experience and including forecasted economic conditions. The amount of ECLs is sensitive to changes in circumstances of forecast economic conditions.

Inventory

Inventories are carried at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and any applicable variable selling expenses.

Share-based compensation and share purchase warrants

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

Depreciation and amortization

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

Leases

The application of IFRS 16 requires the Company to make judgments and estimates that affect the measurement of right-of-use assets and lease liabilities. In determining the lease term, all facts and circumstances that create an economic incentive to exercise renewal options (or not exercise termination options) are considered. Assessing whether a contract includes a lease also requires judgment. Estimates are required to determine the appropriate discount rate used to measure lease liabilities.

Right-of-use assets are measured at cost, comprised of the initial measurement of the corresponding lease liabilities, lease payments made at or before the commencement date and any initial direct costs. They are subsequently depreciated on a straight-line basis and reduced by impairment losses, if any. Right-of-use assets may also be adjusted to reflect the remeasurement of related lease liabilities. The right-of-use asset is depreciated from the commencement date to the earlier of the end of the useful life of the underlying asset or the end of the lease term.

**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 year ended February 28, 2023 was \$40,812 (2022 - \$48,519).

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**5. Related party transactions**

Advances from related party are from a related entity that owns 19.1% of the Company's shares. Included in the advances from related party is a loan that bore interest at 2.89% and increased to 7.5% on May 24, 2022, with monthly interest payments to begin June 1, 2022. Additionally, monthly principal payments of \$10,000 were scheduled to begin on March 30, 2023. In January 2023, the Company paid \$120,000. The loan is secured by all the assets of the Company. During the fiscal year ended February 28, 2023, the Company incurred interest expense of \$74,845 (2022 - \$38,702) and paid \$66,804 (2022 - \$nil) on the advances from related party. The balance owing as at February 28, 2023 was \$1,080,156 (2022 - \$1,192,115) which includes interest payable of \$154,634 (2022 - \$146,593).

Also included in advances from related party is a loan in the amount of \$250,000 (2022 - \$250,000). The loan bears interest at a rate of 4.25% and interest expense incurred and paid during the year was \$10,625 (2022 - \$11,148). All advances from related party are due on demand.

On August 1, 2022 the Company entered into a lease agreement with the related entity. The lease has been disclosed in note 9.

**6. Equipment**

	Nanotechnology equipment	Roof coating equipment	Right-of-use assets	Totals
<b>Cost</b>				
At February 28, 2021	\$ 1,697,259	\$ 8,520	\$ -	\$ 1,705,779
Additions	7,721	-	278,368	286,089
At February 28, 2022	1,704,980	8,520	278,368	1,991,868
Additions	85,805	-	-	85,805
At February 28, 2023	<b>\$ 1,790,785</b>	<b>\$ 8,520</b>	<b>\$ 278,368</b>	<b>\$ 2,077,673</b>
<b>Accumulated depreciation</b>				
At February 28 2021	\$ 1,306,210	\$ 8,520	\$ -	\$ 1,314,730
Depreciation	112,204	-	16,238	128,442
At February 28, 2022	1,418,414	8,520	16,238	1,443,172
Depreciation	<b>114,017</b>	-	<b>27,837</b>	<b>141,854</b>
At February 28, 2023	<b>\$ 1,532,431</b>	<b>\$ 8,520</b>	<b>\$ 44,075</b>	<b>\$ 1,585,026</b>
<b>Net book value</b>				
At February 28, 2022	\$ 286,566	\$ -	\$ 262,130	\$ 548,696
At February 28, 2023	<b>\$ 258,354</b>	<b>\$ -</b>	<b>\$ 234,293</b>	<b>\$ 492,647</b>

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**7. Intangible assets**

	Trade secrets	Use of operating rights	Customer relationships	Customer contract	Patent	Total
<b>Cost</b>						
At February 29, 2020, February 28, 2022 and 2023	\$ 100,000	\$ 50,000	\$ 27,000	\$ 23,000	\$ 8,615	\$ 208,615
<b>Accumulated amortization</b>						
At February 28, 2021 Amortization	\$ 100,000	\$ 50,000	\$ 27,000	\$ 23,000	\$ 3,210	\$ 203,210
	-	-	-	-	574	574
At February 28, 2022 Amortization	\$ 100,000	\$ 50,000	\$ 27,000	\$ 23,000	\$ 3,784	\$ 203,784
	-	-	-	-	575	575
<b>At February 28, 2023</b>	<b>\$ 100,000</b>	<b>\$ 50,000</b>	<b>\$ 27,000</b>	<b>\$ 23,000</b>	<b>\$ 4,359</b>	<b>\$ 204,359</b>
<b>Net book value</b>						
At February 28, 2022	\$ -	\$ -	\$ -	\$ -	\$ 4,831	\$ 4,831
<b>At February 28, 2023</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 4,256</b>	<b>\$ 4,256</b>

**8. Bank indebtedness**

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 28, 2023, with monthly principal payments of \$10,484 that commenced March 31, 2018 for a period of 60 months. The Company paid the remaining principal balance in August 2022.

	<u>2023</u>	<u>2022</u>
Opening balance March 1	\$ 133,142	\$ 238,809
Repayments	(133,142)	(105,667)
Ending balance February 28	<u>\$ -</u>	<u>\$ 133,142</u>

Interest of \$2,592 (2022 - \$10,254) related to the Credit Agreement has been recorded as interest expense in the consolidated statements of net income and comprehensive income for the year ended February 28, 2023.

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**9. Lease Liability**

	<u>2023</u>	<u>2022</u>
Opening balance	\$ 268,069	-
Additions	-	278,368
Payments	(42,000)	(24,500)
Interest	23,041	14,201
Ending balance	\$ 249,110	268,069
Less current portion	(20,735)	(18,958)
Long term portion	\$ 228,375	249,111

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 CalNano. 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 year ended February 28, 2023, the costs totaled \$36,681 (2022 - \$15,212) and are recorded in office expenses.

**Maturity analysis – contractual undiscounted cash flows**

Less than one year	\$ 42,000
One to ten years	311,500
Total undiscounted lease obligations	\$ 353,500
Unrecognized imputed interest	(104,390)
Total lease obligation	\$ 249,110

**10. Income Tax**

	<u>February 28, 2023</u>	<u>February 28, 2022</u>
Statutory tax rate	<b>23.00%</b>	23.00%
Income taxes at the statutory rate	\$ 19,276	\$ 63,388
Share-based compensation	<b>10,640</b>	2,319
PPP loan forgiveness	-	(14,398)
Other	<b>94,329</b>	2,860
Change in deferred tax asset not recognized	<b>(120,201)</b>	(54,169)
	<b>\$ 4,044</b>	\$ -

The following table summarizes the components of deferred tax:

	<u>February 28, 2023</u>	<u>February 28, 2022</u>
<b>Deferred tax assets</b>		
Disallowed interest – US	\$ 1,244	\$ 10,667
Lease liability – US	<b>65,564</b>	73,353
<b>Deferred tax liabilities</b>		
Intangible assets – US	\$ (1,244)	\$ (10,667)
Bonus accruals – US	<b>(65,564)</b>	(73,353)
	<b>\$ -</b>	\$ -

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**10. Income Tax – continued**

Details of the unrecognized deductible temporary differences are as follows:

	<u>February 28, 2023</u>	<u>February 28, 2022</u>
Deferred tax:		
Unused tax losses carry forward - US (1)	\$ 3,043,070	\$ 3,312,192
Unused tax losses carry forward - Canada (1)	964,295	1,260,254
Disallowed interest – US	243,374	175,387
Inventory reserve – US	30,731	30,731
Intangible assets – US	574	12,253
Bonus accruals – US	54,162	38,977
Lease liability - US	14,818	3,944
	<u>\$ 4,351,024</u>	<u>\$ 4,833,738</u>

- (1) Consists of U.S. Federal and State tax losses in the approximate amount of \$3,043,070 expiring at various dates commencing 2025. Canadian tax losses in the approximate amount of \$964,295 expiring at varying dates commencing 2026.

**11. Compensation of key management personnel**

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

	<u>February 28, 2023</u>	<u>February 28, 2022</u>
Remuneration	\$ 176,640	\$ 126,837
Share-based payments	42,820	8,856
	<u>\$ 219,460</u>	<u>\$ 135,693</u>

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

**12. 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, 2021	31,430,296	\$ 2,902,277
Stock options exercised, at February 28, 2022	373,454	40,289
Total issued and outstanding, February 28, 2022 & 2023	<u>31,803,750</u>	<u>\$ 2,942,566</u>

- (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.

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**12. Share capital-continued**

	<b>Number of Options</b>	<b>Weighted Average price (CAD)</b>
Balance, February 28, 2021	2,720,000	\$ 0.06
Expired	(576,546)	0.08
Granted	675,000	0.06
Exercised	(373,454)	0.08
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

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

During the year ended February 28, 2023, the Company recorded \$46,262 in share-based compensation expense (2022 - \$10,084). The weighted average fair value of the options granted during the year ended February 28, 2023, was estimated using the Black Scholes option-pricing model with the following assumptions:

Risk free interest rate (%)	0.53-3.63
Expected term (years)	2-5
Expected volatility (%)	119-168
Dividend per share	-
Forfeiture rate (%)	3.8

The following tables summarize information about stock options outstanding at February 28, 2023:

<b>Options Outstanding</b>			<b>Options Exercisable</b>		
<b>Exercise Price</b>	<b>Number of options</b>	<b>Weighted Average of Remaining Contractual Life (years)</b>	<b>Weighted Average Exercise Price (CAD)</b>	<b>Number of Options</b>	<b>Weighted Average Exercise Price (CAD)</b>
<b>\$ 0.05 - 0.13</b>	<b>3,180,000</b>	<b>2.7</b>	<b>\$ 0.07</b>	<b>1,649,997</b>	<b>\$ 0.05</b>

The following tables summarize information about stock options outstanding at February 28, 2022:

<b>Options Outstanding</b>			<b>Options Exercisable</b>		
<b>Exercise Price</b>	<b>Number of options</b>	<b>Weighted Average of Remaining Contractual Life (years)</b>	<b>Weighted Average Exercise Price (CAD)</b>	<b>Number of Options</b>	<b>Weighted Average Exercise Price (CAD)</b>
<b>\$ 0.05 - 0.14</b>	<b>2,445,000</b>	<b>2.96</b>	<b>\$ 0.06</b>	<b>1,396,666</b>	<b>\$ 0.05</b>

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**13. 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.

972,820 options were included in calculating the weighted-average number of diluted common shares outstanding for the year ended February 28, 2023, and 502,708 for the year ended February 28, 2022.

**14. Contributed surplus**

	<u>February 28, 2023</u>	<u>February 28, 2022</u>
Balance, beginning of year	\$ 329,012	\$ 335,136
Options exercised	-	(16,208)
Share-based compensation (12(c))	46,262	10,084
Balance, end of year	\$ 375,274	\$ 329,012

**15. 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 party.

	<u>February 28, 2023</u>		<u>February 28, 2022</u>	
	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Carrying Value</u>	<u>Fair Value</u>
<b>At FVTPL</b>				
Cash	\$ 216,041	\$ 216,041	\$ 51,332	51,332
<b>At amortized cost</b>				
Accounts receivable	175,554	175,554	351,292	351,292
Accounts payable and accrued liabilities	228,516	228,516	188,893	188,893
Interest payable	154,634	154,634	146,593	146,593
Bank indebtedness	-	-	133,142	133,142
Advances from related party	1,175,522	1,175,522	1,295,522	295,522

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.

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**15. 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 year ended February 28, 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.

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 February 28, 2023, the Company had a working capital deficiency of \$1,215,677 (2022 - \$1,377,591).

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

February 28, 2023	≤ 1 year	> 1 year ≤ 3 years	> 3 years ≤ 4 years	> 5 years	Total
Accounts payable and accrued liabilities	\$ 228,516	\$ -	\$ -	\$ -	\$ 228,516
Advances from related party	1,175,522	-	-	-	1,175,522
Deferred revenue	176,013	-	-	-	176,013
Lease liability	20,736	47,491	56,819	124,065	249,111
<b>Total</b>	<b>\$ 1,600,787</b>	<b>\$ 47,491</b>	<b>\$ 56,819</b>	<b>\$ 124,065</b>	<b>\$ 1,829,162</b>

  

February 28, 2022	≤ 1 year	> 1 year ≤ 3 years	> 3 year ≤ 4 years	> 5 years	Total
Accounts payable and accrued liabilities	\$ 188,893	\$ -	\$ -	\$ -	\$ 188,893
Bank indebtedness	133,142	-	-	-	133,142
Advances from related party	1,295,522	-	-	-	1,295,522
Lease Liability	18,958	43,418	51,946	153,747	268,069
<b>Total</b>	<b>\$ 1,636,515</b>	<b>\$ 43,418</b>	<b>\$ 51,946</b>	<b>\$ 153,747</b>	<b>\$ 1,885,626</b>



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**15. 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 February 28, 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.

	<b>U.S. Dollar February 28, 2023</b>	<b>U.S. Dollar February 28, 2022</b>
Accounts receivable	\$ 3,749	\$ 1,921
Accounts payable and accrued liabilities	42,000	33,370

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

	<b>Impact on Net Income</b>
U.S. Dollar Exchange Rate – 10% increase	\$ 3,825
U.S. Dollar Exchange Rate – 10% decrease	3,825

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 year ended February 28, 2023, the Company was engaged in contracts for products with two (2022 – one) customers in excess of 10% of revenue, which accounted for \$376,004 (2022 - \$340,909) or 27% (2022 – 31%) of the Company's total revenue. The maximum exposure to credit risk is the carrying value of accounts receivable and cash. One (2022 - one) customer had an outstanding balance in excess of 10% of accounts receivable, which accounted for \$38,220 (2022 - \$197,730) or 28% (2022 - 70%) of the Company's total accounts receivable balance. The table below provides an analysis of the current and past due accounts receivables.

	<b>Total</b>	<b>Current</b>	<b>≤ 30 days</b>	<b>&gt; 30 days ≤ 60 days</b>	<b>&gt;60 days ≤ 90 days</b>	<b>&gt; 90 days</b>
<b>February 28, 2023</b>	<b>\$ 175,554</b>	<b>\$ 130,451</b>	<b>\$ 30,550</b>	<b>\$ 12,188</b>	<b>\$ -</b>	<b>\$ 2,365</b>
February 28, 2022	\$ 351,292	\$ 273,322	\$ 40,275	\$ 16,750	\$ 2,100	\$ 18,845

As at February 28, 2023, the average expected credit loss on the Company's accounts receivable was 6% and as a result the company recorded bad debt expense of \$10,659 (2022 - \$423). All amounts past due at February 28, 2023 were collected within the subsequent period.

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 February 28, 2023, the increase or decrease in (loss) income before taxes for each 1% change in interest rates on floating rate debt amounts to approximately \$nil (2022 - \$1,331).

**California Nanotechnologies Corp.**  
**Notes to the Consolidated Financial Statements**  
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**For the years ended February 28, 2023 and February 28, 2022**

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**16. Other income and expense**

Other income

Other income for the year consisted of the following:

	<u>February 28, 2023</u>	<u>February 28, 2022</u>
California Relief Grant (a)	\$ -	\$ 15,000
Paycheck Protection Plan loan forgiven (b)	-	62,600
Employment Retention Credits	-	66,989
Research and development tax credits	6,775	6,644
Recycling proceeds	-	1,500
Foreign exchange gains	-	1,083
Other	<u>287</u>	<u>-</u>
Total	<u>\$ 7,062</u>	<u>\$ 153,816</u>

- (a) The Company applied for and received a \$15,000 Grant Award administered by the California office of the Small Business Advocate (CalOSBA). The award proceeds were received on August 13, 2021, and recorded in other income. The Company has agreed to all terms and conditions pursuant to the California Small Business COVID-19 Relief Grant Program Grantee Agreement, which states that the grant funds be used to cover employee expenses including payroll costs, and related benefits, overhead costs, costs associated with complying with COVID-19 guidelines, and safety protocols.
- (b) The Company applied for and received loan proceeds in the amount of \$62,600 (“PPP Funds”) and entered into a second loan agreement with Manufacturers Bank pursuant to the Paycheck Protection Program (“PPP”) for the same amount in May, 2021. The PPP was established as part of the Coronavirus Aid, Relief and Economic Security Act (“CARES Act”) in order to enable small businesses to pay employees during the economic slowdown caused by COVID-19 by providing forgivable loans to qualifying businesses for up to 2.5 times their average monthly payroll costs. The amount borrowed by the Company under the PPP was eligible to be forgiven provided that (a) the Company uses the PPP Funds during the 24-week period after receipt thereof, and (b) the PPP Funds are only used to cover payroll costs (including benefits), rent, mortgage interest, and utility costs.

In February, 2022, the Small Business Administration notified the Company that the entire second PPP loan was forgiven in the amount of \$62,600.

- (c) During the prior year, the company applied for Employee Retention Credit refunds totaling \$66,989. In April, 2022, the company received a partial payment in the amount of \$31,299. The company expects to collect the remaining amount of \$35,690 within the next six months, and is recorded as a receivable in the accompanying balance sheet.

**California Nanotechnologies Corp.**  
**Notes to the Consolidated Financial Statements**  
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**For the years ended February 28, 2023 and February 28, 2022**

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Other expense

Other expense for the year ended February 28, 2023 was \$139 (2022 - \$87,775) consisted of the following:

	<u>February 28, 2023</u>	<u>February 28, 2022</u>
Tax fines and penalties	\$ 75	\$ 87,434
Sales tax corrections	<u>64</u>	<u>341</u>
Total	<u>\$ 139</u>	<u>\$ 87,775</u>

**17. 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 year ended February 28, 2023.