CALIFORNIA NANOTECHNOLOGIES CORPORATION

Management Discussion and Analysis
For the three months ended May 31, 2026

Dated: July 29, 2026

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California Nanotechnologies Corporation

MANAGEMENT DISCUSSION AND ANALYSIS

This Management Discussion and Analysis ("MD&A") should be read in conjunction with the Consolidated Financial Statements and related notes of California Nanotechnologies Corporation (the "Company" or "Cal Nano") for the three months ended May 31, 2026. The Company's functional and presentation currency is U.S. dollars and all amounts in this MD&A are expressed in U.S. dollars. The Company reports its financial position, results of operations and cash flows in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). This MD&A has been completed as of July 29, 2026.

FORWARD-LOOKING STATEMENTS

This Management Discussion and Analysis (MD&A) includes predictions about future events, commonly known as forward-looking statements. These statements, typically identified by specific words like "plans," "expects," "estimates," and "anticipates,", as well as other similar expressions, outline expected actions, occurrences, or outcomes. However, they are subject to various known and unknown risks and uncertainties, leading to potentially significant differences in the actual outcomes or performance of the Company compared to those suggested by these statements. The accuracy of these forward-looking statements depends on several assumptions that might not hold true. These include factors such as the Company's financing capabilities, overall economic conditions, customer interest in its products and services, competition levels, and unexpected costs. It's important to note that the Company's perspective might change over time due to new events and developments, it is not obligated to update these statements according to securities legislation.

Readers are advised not to rely solely on these forward-looking statements as they represent the Company's position only as of the MD&A's date. Other potential factors not listed here could cause actual results and events to differ from those projected. The "Risk Factors" section of this MD&A and other periodic filings provide more details on these risks and uncertainties. These documents are available on the SEDAR+ website at www.sedarplus.ca. The Company does not commit to updating these statements in light of new information or future events. All forward-looking statements in this MD&A are given with this caution in mind.

COMPANY OVERVIEW

Cal Nano is an American company specializing in comprehensive manufacturing services and equipment sales tailored to address intricate material enhancement challenges involving powdered metallurgy. With a nearly two decades-long track record, we have successfully conducted thousands of trials, enabling our clients to realize their material advancement objectives. Renowned for our expertise, Cal Nano stands out as the premier partner in North America for the cutting-edge technologies of Spark Plasma Sintering and Cryomilling. Having conducted over 15,000 trials and a team of approximately 20 full-time employees, we have solidified our reputation as a trusted leader in the industry among multinationals, startups, and government research labs.

Mission & Vision

Cal Nano's mission is to bring next generation materials to market with cutting-edge technologies.

We envision a world in which our advanced technologies are used to help make the most innovative products on this planet and beyond. Global leaders trust us to help push the boundaries of applied material science by utilizing our unique technical expertise and vision.

Cal Nano hosts a complement of advanced processing and testing capabilities for materials research and production needs in its manufacturing facilities in Cerritos (headquarters) and Santa Ana, California. Multiple in-house Spark Plasma Sintering systems, cryogenic mills, mechanical testing, and tooling fabrication combine for an agile ability to serve a variety of customer's needs. Fundamental R&D, pilot-scale, and commercial production services are performed by Cal Nano for customers across all industries, universities, and labs. These customers range from Fortune 500 companies and government research labs to startups with programs spanning aerospace, renewable energy, defense, and semiconductors.

Core Technologies

Cal Nano's two core technologies are Spark Plasma Sintering (SPS) and Cryogenic Milling. SPS is an advanced sintering & bonding technique for all varieties of materials, including metallic alloys, high-temp ceramics, high entropy alloys, and everything in between. Cal Nano provides powder consolidation and material bonding toll manufacturing services via its multiple Spark Plasma Sintering Systems for everything from fundamental R&D to production. Cryogenic Milling is a cutting-edge powder processing technique used for particle size reduction (to nano scale), mechanical alloying and nano-grain refinement. This process is high-energy attrition ball milling at cryogenic temperatures, which provides unique benefits to traditional milling and mixing technologies. Cal Nano provides toll manufacturing services for R&D and production needs and has multiple milling systems on-site.

The Company trades on two exchanges: the TSX Venture Exchange (TSX-V) under the symbol CNO and on the OTC Markets (OTC) under the symbol CANOF.

MARKETS & STRATEGY

Cal Nano currently services customers in the aerospace, renewable energy, cleantech, defense, and semiconductors industries. The mix of customers varies three months-to-three months depending on the size and timing of projects. Historically, the Company has provided R&D and pilot-scale production services to customers in North America. As part of its growth strategy, Cal Nano is in the process of transitioning from solely R&D-based work to a mix, including commercial-scale production. These customers can either transition to commercial scale from R&D or potentially contract Cal Nano directly into pilot or larger- scale production orders. The Company is targeting U.S. customers in addition to companies headquartered outside of North America who want a local U.S. manufacturing presence.

In late 2024, the Company expanded into its second manufacturing facility in Santa Ana, California. This facility features a Dr. Fritsch MSP-5 SPS machine, one of the largest systems available for commercial and fundamental R&D work in North America, significantly enhancing the Company's production capabilities. This expansion provides the necessary infrastructure to operate the new and larger equipment, and creates additional space for potential production requirements, warehousing, and custom tooling. This infrastructure includes increased electrical current capacity, liquid nitrogen storage, and other associated upgrades.

In mid-2026, the Company consolidated its Cerritos-based manufacturing facility to its flagship Santa Ana. This streamlined manufacturing operations and created one center of excellence for its R&D and commercial manufacturing operations utilizing the Company's technologies.

RESULTS OF OPERATIONS

All figures in US dollars unless noted.

Revenue: For the three months ended May 31, 2026, the Company reported revenue of $917,854 compared to $716,553 from the three months ended May 31, 2025, an increase of 28%. The revenue increase of $201,301 is mainly due to a $123,301 increase in Equipment deliveries of SPS systems and an increase in Research and Development manufacturing revenue of $59,843.

Sales by Type	YTD as of 5/31/2026	% of Total Sales	YTD as of 5/31/2025	% of Total Sales
Manufacturing	736,931	80%	715,055	100%
Equipment	180,923	20%	1,498	0%
Total Sales	**$ 917,854**	100%	**$ 716,553**	100%

For the three months ended May 31, 2026, total gross profit was $413,858, reflecting a consolidated gross margin of 45%, compared to $408,061 and 57% for the same period in the prior year. The change in gross margin is primarily attributable to a reduction in manufacturing gross margin to 50% from 57%, in the prior year, as well as a change in the revenue mix resulting from the equipment sale, which generated a lower gross margin of 25%. While the total gross profit increased slightly by $5,796 for the period ended May 31, 2026, the overall gross margin decreased by 1,200 basis points compared to the period ended May 31, 2025.

The Company is in a period of transition toward a more diversified and predictable revenue model that includes both R&D and commercial production. Gross margins are expected to fluctuate from period to period based on sales mix and operational scaling activities with this transition.

Gross Profit	YTD as of 5/31/2026	2027 Gross margin %	YTD as of 5/31/2025	2027 Gross margin %
Manufacturing	369,327	50%	407,990	57%
Equipment	44,531	25%	71	5%
Total Gross Profit	**$ 413,858**	45%	**$ 408,061**	57%

Operating Expenses: Operating expenses for the three months ended May 31, 2026, totaled $901,859, representing 98% of revenue, compared to $831,069, or 116% of revenue for the same period in the prior three months. The increase of $70,791was primarily driven by higher professional fees of approximately $32,000, stock-based compensation $24,000, advertising and promotion expenses of $19,000, office and facility-related expenses of $18,000, which was partially offset by lower supplies expense of $31,000. Professional fees incurred during the three months ended May 31, 2026, included approximately $12,000 related to the private placement, consisting primarily of finder's fees paid through the issuance of 154,179 common shares and $825 commission. The increases in operating expenses reflect the Company's continued efforts to support its corporate infrastructure and long-term growth initiatives.

Net Loss: For the three months ended May 31, 2026, the Company recorded a net loss of $449,598, compared to the net loss of $447,887 in the same period in the prior year. Although flat year over year, the increase in operating expenses was partially offsetby the gain from lease termination of $33,881 and R&D tax credits of $7,840 during the period ended May 31, 2026. The gross margin results, combined with changes in sales mix and timing of project activity, had a material impact on profitability three months-to-date.

Earnings (loss) per share: At May 31, 2026, basic loss per share was ($0.01) with the weighted average number of shares at 48,494,661.

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.

For the period ended May 31, 2026, there were 4,707,439 (2025 – 2,779,381) options and 3,119,166 warrants (2025 – 2,984,710). These potential commons shares were not included in calculating the weighted-average number of diluted earnings per share because the company incurred a net loss and their inclusion would have been anti-dilutive.

Key Financial Metrics: The Company's key financial metrics for the three months ended May 31, 2026, reflect continued investment in long-term growth operations and long-term growth initiatives. Revenue increased to $917,854 compared to $716,553 for the same period in the prior year, while gross profit remained relatively consistent at $413,858 compared to $408,061. Despite the increase in revenue, the consolidated gross margin declined to 47% from 57% due to an increase in lower margin equipment sales. Cashused in operations was $521,562 compared to cash provided of $71,589 in the prior period, primarily due to changes in working capital and income tax payments.

EBITDA for the three months ended May 31, 2026, was ($248,589), compared to ($247,021) for the same period in the prior year. Although flat against prior year the increase in operating expenses was partially offset by a $31,881 gain associated with a lease termination and derecognition of the related right-of-use asset and lease liability recovery and a favorable accrual adjustment of $25,000.

Adjusted EBITDA for the three months ended May 31, 2026, was ($129,031), compared to ($152,707) in the prior three months in the prior year. The improvement primarily reflected the impact of higher revenues and gross profit, offset by increased operating expenditures associated with the Company's ongoing growth initiatives. Adjusted EBITDA continues to serve as a meaningful indicator of core performance by excluding non-cash items such as stock-based compensation and changes in the fair value of share purchase warrants. The negative result the current period is al reflects the Company's continued investment in infrastructure expansion, certification initiatives, and organizational development intended to support sustainable future growth.

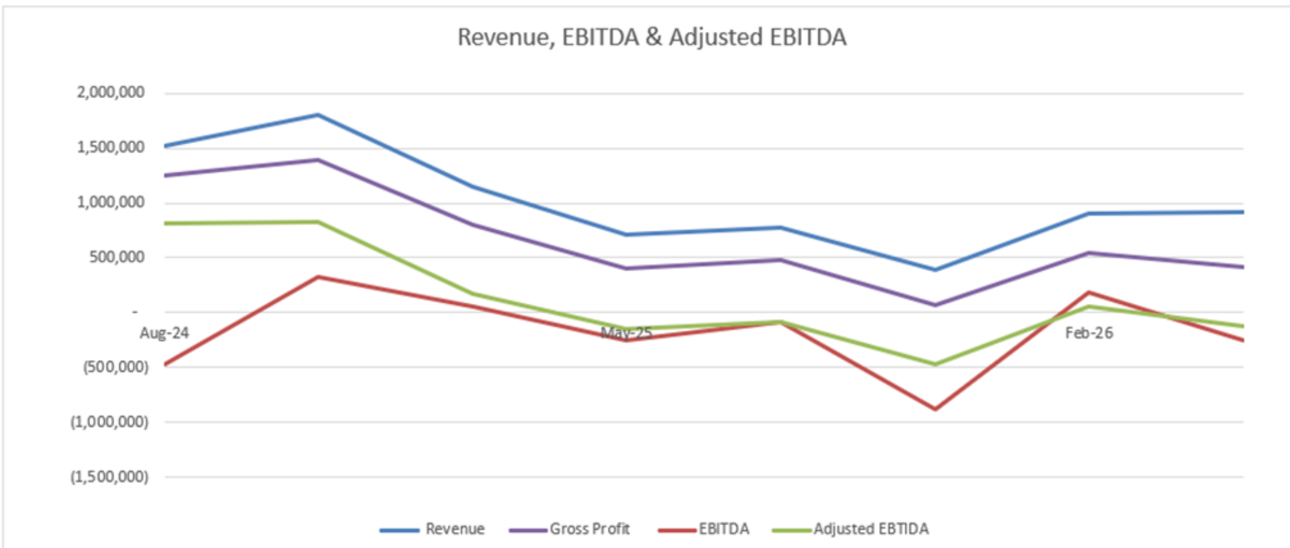
SUMMARY OF FINANCIAL HIGHLIGHTS

	YTD as of 5/31/2026	YTD as of 5/31/2025	Fav/(Unfav)
Revenue	$ 917,854	$ 716,553	28%
Cash flow from operations	(521,562)	71,589	-829%
Net Income/(loss)	(449,598)	(447,887)	0%
EBITDA	(248,589)	(247,021)	-1%
Adjusted EBITDA	(129,031)	(152,707)	16%

SELECTED QUARTERLY INFORMATION

The following table summarizes selected quarterly information from the last eight fiscal quarters.

Quarter	Aug-24	Nov-24	Feb-25	May-25	Aug-25	Nov-25	Feb-26	May-26
Revenue	1,522,185	1,806,205	1,147,522	716,553	779,916	392,481	899,692	914,854
Gross Profit	1,254,069	1,392,222	795,920	408,061	482,720	63,385	547,133	413,858
Gross Margin %	82%	77%	69%	57%	62%	16%	61%	45%
EBITDA	(471,852)	327,569	50,309	(247,021)	(84,179)	(883,971)	186,158	(248,589)
Adjusted EBTIDA	808,970	826,454	168,626	(152,707)	(80,909)	(468,327)	50,329	(129,031)



"EBITDA" means the earnings before interest, income taxes, depreciation, and amortization, where interest is defined as net finance costs as per the consolidated statement of comprehensive income.

"Adjusted EBITDA" refers to earnings before interest, income taxes, depreciation, amortization, share-based compensation, and the unrealized gain on share purchase warrants, with interest defined as net finance costs as per the consolidated statement of comprehensive income.

LIQUIDITY AND CAPITAL RESOURCES

The following table summarizes the Company's cash flows by activity and cash on hand.

Cash Flow	**YTD as of 5/31/2026**	**YTD as of 5/31/2025**
Net cash from operating activities	(521,562)	71,589
Net cash used for financing activities	616,290	(109,784)
Net cash used for investing activities	(26,848)	(32,844)
Net (decrease)/increase in cash	**67,880**	**(71,039)**
Cash at the beginning of the period	207,182	533,845
Cash at the end of the period	275,062	462,806

At May 31, 2026, the Company recorded a net increase in cash of $67,880, compared to a net decrease of $71,039 for the three months ended May 31, 2025. The three months-over-three months change was primarily driven by $616,290 of financing cash inflows, largely due to the issuance of common shares, partially offset by $521,562 cash used in operating activities. Operating cash use was primarily attributable to the increase in working capital particularly accounts receivable and prepaid expenses. The Company continues to actively manage its liquidity and capital requirements.

The Company's functional and reporting currency is U.S. dollars. However, the calculation of income tax expense is based on income in the currency of the country of origin. As such, the Company is continually subject to foreign exchange fluctuations, particularly as the Canadian dollar moves against the U.S. dollar.

The Company manages its exposure to foreign currency fluctuations by maintaining foreign currency bank accounts to offset foreign currency payables and planned expenditures. The Company reports in its functional currency, the U.S. dollar.

The Company does not have any off-statement of financial position arrangements.

RECENT DEVELOPMENTS

Cal Nano continues to focus on Spark Plasma Sintering and Cryogenic Milling as its main technologies and drivers for future development and growth. The Company's recent efforts have seen success in areas such as aerospace, energy, defense, cleantech, and industrials.

- On June 29, 2026, Cal Nano released its FY2026 results.
- On March 23, 2026, Cal Nano closed its previously announced non-brokered private placement raising aggregate gross proceeds of approximately CA$935,900.
- On January 29, 2026, Cal Nano released its Q3 2026 results.
- On February 24, 2026, Cal Nano announced that it intended to complete a non-brokered private placement for general working capital and corporate purposes.
- On December 23, 2025, Cal Nano signed an agreement with Germany-based Dr. Fritsch Sondermaschinen GmbH (Dr. Fritsch) to become a North American SPS equipment distributor and R&D services partner.
- On November 5, 2025, Cal Nano announced it had received two purchase orders from a U.S.-based

company specializing in the development of advanced small modular nuclear reactors (SMRs).

- On October 8, 2025, Cal Nano released its Q2 2026 results.
- On October 3, 2025, Cal Nano announced a non-binding LOI with Nevada-based company specializing in the development and manufacturing of ultra-high temperature ceramic matrix composites. Under the LOI, Cal Nano is to provide approximately US$1.0 million worth of Spark Plasma Sintering (SPS) commercial production services for a high-performance military brake application, starting in calendar three months 2026.
- On July 30, 2025, Cal Nano released its Q1 2026 results.
- On June 26, 2025, Cal Nano released its Q4 2025 results and reaffirmed that lower manufacturing revenues from the green steel customer will impact Q1 2026 results.
- On April 21, 2025, Cal Nano announced its first two commercial production orders from two different customers. In addition, the Company successfully earned ISO 9001 Quality Management Systems certification for its Spark Plasma Sintering (SPS) technologies. This certification, which covers both manufacturing facilities in Cerritos and Santa Ana, California for the technology, is a key milestone enabling it to qualify for a broader range of commercial production contracts. Lastly, a slowdown in fundamental R&D manufacturing revenues from its largest "green steel" customer impacted revenues in QI 2026.
- On February 19, 2025, Cal Nano was recognized by the TSX Venture Exchange (TSXV) as a 2025 Top 50 Company.

RISK FACTORS

The Company is subject to several risks as outlined below.

Experimental Field

Cal Nano is engaged in the research and development of new materials with the goal of commercializing viable products. The nanotechnology and advanced materials industry require extensive experimental effort and can require significant investment. Customers may hesitate to implement any technologies and/or new materials developed without extensive and time-consuming testing.

No Assurance of Commercial Production

Cal Nano has historically been a research and development firm. As part of its growth plan, the Company is now looking to transition some of those R&D projects into commercial production. However, there is no assurance that it will achieve commercial levels of production or sales for any product.

Relationships with Customers

The success of the Company is closely tied to the strength of its relationships with, and the economic health of, its larger customers. Should these relationships deteriorate, due to factors such as changes in customer management, competitive pressures, shifts in purchasing strategies, or contract disputes, the Company's ability to secure repeat business or new contracts may be jeopardized. Additionally, if the profitability or financial condition of these key customers is negatively impacted by economic downturns, industry disruptions, or other unforeseen factors, their reduced demand for our products and services could lead to a material decline in our revenues and profitability. The Company's long- term success depends on maintaining strong customer relationships and anticipating changes in their business needs and conditions.

Moreover, the Company faces risks related to customer concentration, as a significant portion of its revenues is derived from a small number of customers. Any loss of, or reduction in business from, one or more of these key customers could have a substantial adverse effect on the Company's financial performance.

Competition

Cal Nano is uniquely positioned as, at the current time, one of the only toll manufacturers utilizing Spark Plasma Sintering and Cryomilling technologies to process and enhance powder materials. That being said, there is a high degree of competition within the powder processing industry, which could impact Cal Nano's ability to find and keep customers.

Potential Fluctuations in Financial Results

If Cal Nano's future anticipated revenues are not realized on a timely basis, Cal Nano's financial results could be materially adversely affected.

Financial results in the future may be influenced by these or other factors.

Management of Growth

Any expansion of Cal Nano's business may place a significant strain on its financial, operational and managerial resources. There can be no assurance that Cal Nano will be able to manage its operations and financial assets successfully to manage any growth it undertakes. Any inability of Cal Nano to manage growth successfully could have a material adverse effect on Cal Nano's business, financial condition and results of operations.

Lease Agreements

The non-cancellable lease agreement for a facility in Santa Ana, CA, may impose significant financial obligations and operational challenges. There can be no assurance that the Cal Nano will be able to effectively manage these lease commitments alongside its growth initiatives. Any failure to successfully navigate these lease obligations could materially adversely affect the business, financial condition, and overall results of operations.

Government Regulations

Cal Nano may be subject to various laws, regulations, regulatory actions, and court decisions that may negatively affect it. Changes in the regulatory environment imposed upon Cal Nano could adversely affect its ability to attain its corporate objectives.

Reliance on Key Personnel and Consultants

There can be no assurance that any of Cal Nano's directors, officers or employees will remain with Cal Nano or that, in the future, directors, officers or employees will not organize competitive businesses or accept employment with companies competitive with Cal Nano.

Additional Financing Requirements and Access to Capital

Cal Nano may require additional financing to implement its business plan. The ability of the Company to arrange such financing in the future will depend in part upon the prevailing capital market conditions as well as the business performance of Cal Nano. There can be no assurance that Cal Nano will be successful in its efforts to arrange additional financing, if needed, on terms satisfactory to Cal Nano. If additional financing is raised by the issuance of shares from the treasury of Cal Nano, control of Cal Nano may change and shareholders may suffer additional dilution. There can be no assurance that Cal Nano will generate cash flow from operations necessary to support the continuing operations of Cal Nano.

DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures have been designed to ensure that information required to be disclosed by the Corporation is accumulated and communicated to our management as appropriate to allow timely decisions regarding disclosure. The Company's Chief Executive Officer and a Director have concluded, based on their evaluation at May 31, 2026, that the Company's disclosure controls and procedures are effective to provide reasonable assurance that material information related to Cal Nano, is made known to them by employees or third-party consultants working for the Company. It should be noted that while the Company's Chief Executive Officer and a Director believe that the disclosure controls and procedures will provide a reasonable level of assurance and that they are effective, they do not expect that the disclosure controls and procedures will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute assurance that the objectives of the control system are met.

OUTSTANDING SHARE CAPITAL

At May 31, 2026:

- Common shares issued and outstanding: 46,764,660
- Private placement shares issued 3,273,845
- Total shares issued and outstanding 50,038,505

Description	Number
Options outstanding at May 31, 2026	6,790,779
Options exercisable at May 31, 2026	4,707,439

During the Annual Stockholder's Meeting held on August 23, 2024, 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.

RELATED PARTY TRANSACTIONS

As of May 31, 2026, a related entity holding approximately 12.6% of the Company's common shares was considered a related party under IFRS. There were no financing transactions or outstanding balances with this related party during the three months ended May 31, 2026.

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 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 three months ended May 31, 2026, the costs totaled $11,157 (2025 - $22,962) and are recorded in office expenses. Effective March 1, 2025, the lease agreement with the related party was amended to increase the monthly rent from $3,500 to $4,300. The amendment was accounted for as a lease modification under IFRS 16, resulting in a remeasurement of the lease liability and adjustment to the right-of-use asset as of the effective date of the amendment.

As of May 31, 2026, the Company had vacated the leased premises located at 17220 Edwards Road, Cerritos, California and relocated all operations to its primary facility at 1525 E. Edinger Avenue, Santa Ana, California. As the sublease arrangement was terminable on a month-to-month basis, the Company had no enforceable obligation to make lease payments beyond the termination date. Accordingly, during the period ended May 31, 2026, the Company derecognized the remaining right-of-use asset and corresponding lease liability. The difference between the carrying amount of the lease liability and the related right-of-use asset resulted in a gain on lease termination of $33,881. As of May 31, 2026, neither a right-of-use asset nor liability remained outstanding in connection with this location.

During the three months ended May 31, 2026, a director of the Company participated in the Company’s non-brokered private placement by subscribing for 500,000 units at a price of CA$0.30 per unit, for a total consideration of CA$150,000. These units were issued on the same terms and conditions as those issued to the other investors participating in the private placement and no amounts are outstanding with this transaction as of May 31, 2026. Each unit consisted of one common share and one common share purchase warrant. Each warrant entitles the holder to acquire one additional common share at an exercise price of US$.30 through September 23, 2027.

Lease Liability

In 2025, the Company entered into an agreement to lease a warehouse and equipment. The Company recorded a right of use asset of $1,663,554 and lease liability of $1,586,421, using an incremental borrowing rate of 9% and 7.8% for warehouse and equipment, respectively.

The table below summarizes the changes in the Company's lease liabilities for the three months ended May 31, 2026 and 2025, including additions from the new lease agreements, scheduled lease payments, and interest expense recognized during the period.

	At May 31, 2026	At May 31, 2025
Opening Balance	$ **1,307,083**	$ 1,623,054
Additions	-	-
Payments	**(77,385)**	(111,524)
Lease termination	**(216,877)**	-
Interest	**26,776**	35,071
Lease Liability at end of period	$ **1,039,597**	$ 1,546,601
Less current portion	**(337,700)**	(293,218)
Long term portion	$ **701,897**	$ 1,253,383

The following table presents a maturity analysis of the Company's lease liability as of May 31, 2026, showing the undiscounted contractual cash flows and a reconciliation to the lease liability recognized in the statement of financial position.

Maturity analysis-contractual undiscounted cash flow	**At May 31, 2026**	At May 31, 2026
Less than one year	**$ 307,989**	$ 416,256
One to ten years	**865,506**	1,439,653
Total undiscounted lease obligations	**1,173,495**	1,855,909
Unrecognized imputed interest	**(133,898)**	(309,308)
Total Lease obligation	**$ 1,039,597**	$ 1,546,601

BOARD OF DIRECTORS

Some of the Company's directors are material shareholders.

FINANCIAL INSTRUMENTS

As part of its operations, the Company utilizes a number of financial instruments. It is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments except as otherwise disclosed. The company manages these risks by operating to minimize risk exposure to the extent practical.

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

	YTD as of 5/31/2026		YTD as of 5/31/2025	
At FVTPL	**Carrying Value**	**Fair Value**	Carrying Value	Fair Value
Cash	**$ 275,062**	**$ 275,062**	$ 462,806	$ 462,806
Share purchase warrants	**-**	**-**	568,103	568,103
At amortized cost				
Accounts receivable	**759,851**	**759,851**	1,232,703	1,232,703
Accounts payable & accrued liabilities	**433,697**	**433,697**	808,341	808,341
Income tax payable	**13,328**	**13,328**	168,091	168,091

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 period between Levels 1, 2 and 3.

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

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

Liquidity Risk

The Company defines liquidity risk as the financial risk that the Company will encounter difficulties meeting its obligations associated with financial liabilities. The Company's objective for managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. This risk is mitigated by managing the cash flow by controlling receivables and payables to vendors and related parties. At May 31, 2026, the Company had working capital of $352,571 and a prior year deficit of $106,050.

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

At May 31, 2026	≤ 1 year	> 1 year ≤ 3 years	> 3 years ≤ 4 years	> 5 years	Total
Accounts payable and accrued liabilities	$ 433,697	$ -	$ -	$ -	$ 433,697
Income tax payable	13,328	-	-	-	13,328
Deferred revenue	125,513	-	-	-	125,513
Lease liability	337,700	701,897	-	-	1,039,597
Total	**$ 910,238**	**$ 701,897**	**$ -**	**$ -**	**$ 1,612,135**

At May 31, 2025	≤ 1 year	> 1 year ≤ 3 years	> 3 year ≤ 4 years	> 5 years	Total
Accounts payable and accrued liabilities	$ 453,060	$ -	$ -	$ -	$ 453,060
Income tax payable	168,091	-	-	-	168,091
Deferred revenue	17,500		-	-	17,500
Lease Liability	293,218	756,390	428,088	68,904	1,546,600
Total	$ 931,869	$ 756,390	$ 428,088	$ 68,904	$ 2,185,251

Foreign currency risk

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

The Company believes its exposure to foreign currency risk to be minimal. At May 31, 2026, 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 May 31, 2026	U.S. Dollar May 31, 2026
Accounts receivable	**$ 7,963**	$ 5,281
Accounts payable and accrued liabilities	**53,258**	38,501

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

	Impact on Net Income
U.S. Dollar Exchange Rate – 10% increase	$ 5,786
U.S. Dollar Exchange Rate – 10% decrease	(5,786)

Revenue concentration and credit risk

For the three months ended May 31, 2026, the Company was engaged in contracts for products with three (2025 - nil) customer in excess of 10% of revenue, which accounted for $418,691 (2025 - nil) or 46% (2025 - 0%) 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. Five (2025 - two) customers had an outstanding balance in excess of 10% of accounts receivable, which accounted for $592,775 (2025 - $275,596) or 76% (2025 - 45%) of the Company's total accounts receivable balance. The table below provides a analysis of the current and past due accounts receivable.

	Total	Current	≤ 30 days	> 30 days ≤ 60 days	>60 days ≤ 90 days	> 90 days
May 31, 2026	**$759,851**	**$378,567**	**$22,830**	**$9,921**	**$285,758**	**$62,775**
May 31, 2025	$692,101	$438,481	$70,059	$91,411	$15,906	$76,244

As at May 31, 2026, the additional provision for expected credit losses on accounts receivable was $nil.

CAPITAL DISCLOSURES

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

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

The Company is not subject to externally imposed capital requirements and the Company's overall strategy with respect to capital risk management remains unchanged from the three months ended May 31, 2026.

CONFERENCES

Conferences attended to date in FY2027:

- TMS Specialty Congress 2026, Anaheim, CA, exhibitor and presenter, July 6 to 10, 2026
- 2026 ANS Annual Conference, Denver, CO, exhibitor, May 31 to June 3, 2026
- Advanced Materials Summit, Washington, DC, attendee, May 12 to 13, 2026
- Society of Vacuum Coaters (SVC)'s TechCon 2026, Long Beach, CA, exhibitor, April 25 to 30, 2026
- The American Ceramic Society's ACerS Spring Meeting 2026, Bellevue, WA, presenter, April 12 to 17, 2026
- Defense Manufacturing Conference 2025, Orlando, FL, exhibitor, March 30 to April 2, 2026
- Cal Nano SPS/FAST Experts Workshop 2026, Anaheim, CA, organizer and host, March 19 to 20, 2026
- TMS 2026 Annual Meeting & Exhibition, San Diego, CA, exhibitor and presenter, March 15 to 19, 2026

INTENTION OF MANAGEMENT'S DISCUSSION AND ANALYSIS

This MD&A is intended to provide an explanation of financial and operational performance compared with prior periods and the Company's prospects and plans. It provides additional information not contained in the Company's financial statements.

Additional information

Further information regarding California Nanotechnologies Corporation can be accessed under the Company's public filings found at www.sedarplus.ca.

The information contained in this discussion may be considered to contain forward-looking statements. Such forward-looking statements address future events and conditions and are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated. There is no representation by the Company that actual results will be the same in whole or in part as implied by the forward-looking statements provided.