

California Nanotechnologies Corp.
(A Development Stage Company)
Condensed Consolidated Financial Statements
For the interim six month period ended August 31, 2013
(in United States Dollars)

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UNAUDITED INTERIM FINANCIAL STATEMENTS

In accordance with National Instrument 51-102 released by the Canada Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited financial statements for the period ended August 31, 2013.

NOTICE TO THE READER OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The financial statements of California Nanotechnologies Corp. and the accompanying interim condensed consolidated statements of financial position as at August 31, 2013 and the interim condensed consolidated statements of loss, comprehensive loss, changes in equity and cash flows for the six month period ended are the responsibility of the Company's management.

These condensed consolidated financial statements have not been reviewed on behalf of the shareholders by the independent external auditors of the Company, MNP LLP.

The condensed consolidated interim financial statements have been prepared by management and include the selection of appropriate accounting principles, judgments and estimates necessary to prepare these financial statements in accordance with IAS 34, Interim Financial Reporting as issued by the International Accounting Standards Board ("IASB").

signed "David F. Grant"

David F. Grant

CEO

October 29, 2013

signed "Timothy C. Wang"

Timothy C. Wang

CFO

California Nanotechnologies Corp.
(A Development Stage Company)
Condensed Consolidated Statements of Financial Position
United States Dollars

As at	Note	August 31, 2013	February 28, 2013
		(unaudited)	
ASSETS			
Current assets			
Cash		\$ 218,015	\$ 5,235
Accounts receivable	15	11,611	23,550
Prepaid expenses and deposits		33,256	33,583
Total current assets		262,882	62,368
Equipment	6	101,527	139,968
Intangible assets	7	98,890	105,339
Investment	8	-	250,000
Total assets		\$ 463,299	\$ 557,675
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		\$ 45,908	\$ 62,847
Income taxes payable		800	-
Advances from related parties	4	1,245,059	1,145,424
Total current liabilities		1,291,767	1,208,271
Going concern	2		
Shareholders' equity			
Share capital	10	2,386,148	2,386,148
Contributed surplus	14	158,902	154,490
Deficit		(3,373,518)	(3,191,234)
Total shareholders' equity		(828,468)	(650,596)
Total liabilities and shareholders' equity		\$ 463,299	\$ 557,675

On behalf of the Board:

"signed" Donald J. Kelly
Director

"signed" David F. Grant
Director

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

California Nanotechnologies Corp
(A Development Stage Company)
Condensed Consolidated Statements of Loss and Comprehensive Loss
United States Dollars
(Unaudited – prepared by management)

	Note	For the six month period ended August 31, 2013	For the six month period ended August 31, 2012	For the three month period ended August 31, 2013	For the three month period ended August 31, 2012
Revenue		\$ 118,390	\$ 198,844	\$ 61,855	\$ 136,705
Cost of goods sold		3,657	-	3,183	-
Gross margin		114,733	198,844	58,672	136,705
Expenses					
Advertising and promotion		5,026	4,676	3,155	2,726
Amortization and depreciation - equipment and intangible assets	6, 7	54,853	71,106	23,502	35,541
Consulting		3,237	-	3,237	-
Office		14,183	10,586	6,888	7,725
Professional fees		19,870	30,168	6,323	16,244
Repairs and maintenance		15,437	878	2,550	878
Research		42,729	50,279	16,573	24,311
Salaries, wages and benefits		96,423	110,761	51,039	68,571
Supplies		37,326	81,882	13,686	58,564
Travel and entertainment		790	2,851	769	2,547
Share based compensation	10(c), 14	4,412	18,510	2,206	8,335
		294,286	381,697	129,928	255,442
Loss from operations		(179,553)	(182,853)	(71,256)	(88,737)
Foreign exchange loss / income		(157)	(809)	(538)	(214)
Interest expense		(2,615)	(26,149)	-	(14,141)
Interest income		841	-	841	-
Loss before income taxes		(181,484)	(209,811)	(70,953)	(103,092)
Provision for income taxes		800	800	-	-
Net loss and comprehensive loss		\$ (182,284)	\$ (210,611)	\$ (70,953)	\$ (103,092)
Loss per share - basic and diluted	12	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.01)
Weighted average shares outstanding – basic and diluted	12	25,820,000	25,820,000	25,820,000	25,820,000

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

California Nanotechnologies Corp.
(A Development Stage Company)
Condensed Consolidated Statements of Equity
United States Dollars
(Unaudited – prepared by management)

	Note	Share capital	Contributed surplus	Deficit	Total
Balance at February 29, 2012		\$ 2,386,148	\$ 112,436	\$ (2,659,423)	\$ (160,839)
Share-based compensation	14	-	42,054	-	42,054
Net loss		-	-	(531,811)	(531,811)
Balance at February 28, 2013		\$ 2,386,148	\$ 154,490	\$ (3,191,234)	\$ (650,596)
Share based compensation	14	-	4,412	-	4,412
Net loss		-	-	(182,284)	(182,284)
Balance at August 31, 2013		\$ 2,386,148	\$ 158,902	\$ (3,373,518)	\$ (828,468)

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

California Nanotechnologies Corp.
(A Development Stage Company)
Condensed Consolidated Statements of Cash Flows
United States Dollars
(Unaudited – prepared by management)

	Note	For the six month period ended August 31, 2013	For the six month period ended August 31, 2012	For the three month period ended August 31, 2013	For the three month period ended August 31, 2012
Cash provided by (used for) the following activities					
Operating activities					
Net loss		\$ (182,284)	\$ (210,611)	\$ (70,953)	\$ (103,092)
Amortization - equipment and intangible assets	6, 7	54,853	71,106	23,502	35,541
Stock based compensation	14	4,412	18,510	2,206	8,335
		(123,019)	(120,995)	(45,245)	(59,216)
Changes in working capital accounts					
Accounts receivable		11,939	(53,317)	15,452	(11,899)
Prepaid expenses and deposits		327	(9,323)	(1,874)	(10,855)
Income taxes payable		800	800	-	-
Accounts payable and accrued liabilities		(16,939)	(8,388)	(22,151)	(19,230)
Net cash used for operating activities		(126,892)	(191,223)	(53,818)	(101,200)
Financing activities					
Payments to related parties	4	(63,187)	(50,692)	(29,290)	(47,726)
Proceeds from related parties	4	162,822	229,694	52,619	141,512
Net cash provided by financing activities		99,635	179,002	23,329	93,786
Investing activities					
Purchase of equipment	6	(9,963)	(5,770)	(9,963)	(5,770)
Proceeds from investment	8	250,000	(4,350)	241,000	(4,350)
Net cash provided by / (used for) investing activities		240,037	(10,120)	231,037	(10,120)
Increase/(decrease) in cash resources		212,780	(22,341)	200,548	(17,534)
Cash, beginning of period		5,235	26,967	17,467	22,160
Cash, end of period		\$ 218,015	4,626	\$ 218,015	\$ 4,626

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

California Nanotechnologies Corp
(A Development Stage Company)
Notes to the condensed consolidated Financial Statements
United States Dollars

For the six month period ended August 31, 2013

1. Incorporation and operations

Veritek Technologies Inc. was incorporated under the laws of the Province of Alberta on May 19, 2002. On February 1, 2007, the Company changed its name to California Nanotechnologies Corp. (the "Company") in connection with the reverse takeover with California Nanotechnologies Inc. The condensed consolidated financial statements of the Company for the period ended August 31, 2013 include the accounts of the Company and its wholly-owned subsidiary. The financial statements were authorized for issue by the Board of Directors on October 29, 2013. 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 #1600, 205 - 5th Avenue S.W., Calgary, Alberta T2P 2V7. 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 stability. To date, the Company has not earned significant revenues and is considered to be in the development stage. The Company's target markets are Aerospace, Defense, Automotive, Medical and Sports and Recreation. Since the most significant portion of the Company's operations are located in the United States and its functional currency is denominated in United States dollars, these condensed consolidated financial statements are stated in United States dollars.

2. Going concern

These consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the payment of liabilities in the ordinary course of business. Should the Company be unable to continue as a going concern, it may be unable to realize the carrying value of its assets and to meet its liabilities as they become due.

The Company has a net loss for the six month period of \$182,284 (August 31, 2012 - \$210,611) and negative cash flows from operating activities of \$126,892 (August 31, 2012 - \$191,223). In addition, the Company has an accumulated deficit of \$3,373,518 (December 31, 2012 - \$3,191,234). These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern.

The Company's ability to continue as a going concern is dependent upon its ability to attain profitable operations and generate funds therefrom, and to continue to obtain equity investment and borrowings sufficient to meet current and future obligations and/or restructure the existing debt and payables. These 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.

3. Significant accounting policies

These condensed consolidated financial statements have been prepared by management in accordance with IAS 34, Interim Financial Reporting as issued by the International Accounting Standards Board ("IASB"). The principal accounting policies are set out below. These condensed interim consolidated financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the Consolidated Financial Statements and the notes thereto in the Company's Audited Annual Financial Statements for the year ended February 28, 2013.

Any standards and interpretations that have been issued but are not yet effective, and that are available for early application, have not been applied to the Company in these condensed consolidated financial statements. Application of the majority of these standards and interpretations is not expected to have a material effect on the condensed consolidated financial statements in the future.

California Nanotechnologies Corp
(A Development Stage Company)
Notes to the condensed consolidated Financial Statements
United States Dollars

For the six month period ended August 31, 2013

3. Significant accounting policies – continued

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. The condensed 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 below:

(a) 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.

(b) Basis of measurement

These condensed consolidated financial statements have been prepared on a going concern basis, using historical cost convention except for financial assets classified as fair value through profit or loss or available for sale which are measured at fair value. In addition, they have been prepared on an accrual basis of accounting except for cash flow information.

(c) Revenue recognition

Revenue is recognized when goods are shipped or services provided to the customer, significant contractual obligations have been satisfied, and collection of the resulting receivable is reasonably assured. The Company recognizes revenue and profits from contracts on the percentage of completion basis, and accordingly costs are expensed as incurred and revenue is recognized only to the extent of contract costs incurred that will be recoverable. Expected losses are recognized immediately when it is probable that total contract costs will exceed total contract revenue. Revenue on short term investments is recognized on an accrual basis.

(d) Cash

Cash includes balances with banks. Bank borrowings are considered to be financing activities. Any bank indebtedness is covered with the Company's overdraft protection in the amount of \$30,000.

(e) Business combinations

The Company uses the acquisition method of accounting to account for business combinations. The consideration transferred is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Company. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

(f) Equipment

Equipment is carried at deemed cost (historical cost less accumulated amortization). Amortization 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 and three years for roof coating equipment. Borrowing costs are capitalized that are directly attributable to the acquisition of equipment. The Company reviews the criteria for capitalization and the useful life of its capital assets on an on-going basis considering changes in circumstances.

California Nanotechnologies Corp
(A Development Stage Company)
Notes to the condensed consolidated Financial Statements
United States Dollars

For the six month period ended August 31, 2013

3. Significant accounting policies – continued

(f) Equipment - continued

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 direct operating expenses. Gains and losses on disposal of an item of equipment is determined by comparing the proceeds from disposal with the carrying amount of equipment, and are recognized net within other (income) expense in the consolidated statement 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 intellectual property and other intangible assets. Intangible assets consist primarily of customer relationships, trade secrets, use of operating rights and contract intangibles. Intangible assets are recorded at cost less any accumulated amortization and/or impairment losses. Intangible assets are amortized on a straight-line basis over their 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 amortization period of an intangible asset is reviewed at least annually.

(h) Impairment of non-financial assets excluding goodwill

The Company assesses, at the end of each reporting period, whether there is an indication that an asset group may be impaired. If any indication of impairment exists, the Company estimates the recoverable amount of the asset group. 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 corporate assets, which do not generate separate cash inflows, are allocated to the CGUs on a reasonable basis for impairment testing purposes.

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 to sell (“FVLCS”) and value in use (“VIU”). FVLCS 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) Goodwill

Goodwill represents the excess of the purchase price over the fair value of net assets acquired and liabilities assumed in a business combination. Goodwill is not amortized but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Company’s CGU’s expected to benefit from the synergies of the combination. CGU’s to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the CGU may be impaired. If the recoverable amount of the CGU is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the CGU. An impairment loss recognized for goodwill is not reversed in a subsequent period.

California Nanotechnologies Corp
(A Development Stage Company)
Notes to the condensed consolidated Financial Statements
United States Dollars

For the six month period ended August 31, 2013

3. Significant accounting policies – continued

(j) 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 August 31, 2013 and February 28, 2013 there were no provisions recognized in the consolidated financial statements.

(k) Income taxes

Income tax expense for the period consists of current and deferred tax. Deferred tax is recognized in the consolidated statement 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 statement of loss and comprehensive loss. 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.

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.

(l) Foreign exchange

These consolidated financial statements have been presented in United States (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 loss.

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 loss.

California Nanotechnologies Corp
(A Development Stage Company)
Notes to the condensed consolidated Financial Statements
United States Dollars

For the six month period ended August 31, 2013

3. Significant accounting policies – continued

(m) Significant accounting estimates and assumptions

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 cash generating units (“CGU’s”)

For the purpose of assessing impairment of tangible and intangible assets, assets are grouped at the lowest level of separately identified cash flows 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. In assessing the recoverability of tangible and intangible assets, each CGU’s carrying value is compared to the greater of its fair value less costs to sell and value in use.

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.

Estimates

Valuation of accounts receivables

Accounts receivable are reviewed on a regular basis to estimate recoverability of balances. Accounts receivable are stated after evaluation as to their collectability and an appropriate allowance for doubtful accounts is provided where considered necessary.

Business combinations

Business combinations have been accounted for using the acquisition method of accounting. Under the acquisition method, the acquiring company adds to its statement of financial position the estimated fair values of the acquired assets and liabilities. There are various assumptions made when determining the fair values of the assets and liabilities acquired. The most significant assumptions and those requiring the most judgment involve the estimated fair value of intangible assets.

Share-based payments

The Corporation uses an option pricing model to determine the fair value of share-based payments. 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.

California Nanotechnologies Corp
(A Development Stage Company)
Notes to the condensed consolidated Financial Statements
United States Dollars

For the six month period ended August 31, 2013

3. Significant accounting policies – continued

(m) Significant accounting estimates and assumptions - continued

Estimates - continued

Depreciation and amortization

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

(n) 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 expense. Under this method, the associated compensation expense is charged to net 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. Each tranche is treated as a separate share option grant, and subsequently valued at the start of each tranche's vesting period.

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.

(o) Per share amounts

Basic loss 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.

(p) 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 earnings over the estimated benefit period and are tested annually for impairment. Research and development expenses are mainly comprised of salaries and related expenses, material costs as well as fees paid to third party consultants.

(q) Financial instruments

All financial instruments are required to be measured at fair value on initial recognition of the instrument. Measurements in subsequent periods depends on whether the financial instrument has been classified as "at fair value through profit or loss", "available-for-sale", "held-to-maturity", "loans and receivables", or "other financial liabilities" as defined by the standard.

Financial assets and financial liabilities "at fair value through profit or loss" are measured at fair value with changes in those fair values recognized in net loss. Financial assets "available-for-sale" are measured at fair value, with changes in those fair values recognized in Other Comprehensive Income ("OCI"). Financial assets "held-to-maturity", "loans and receivables" and "other financial liabilities" are measured at amortized cost using the effective interest method of amortization. Transaction costs related to these financial assets and liabilities are included in net loss when incurred.

California Nanotechnologies Corp
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Notes to the condensed consolidated Financial Statements
United States Dollars

For the six month period ended August 31, 2013

3. Significant accounting policies – continued

(q) Financial instruments - continued

Cash is designated as "at fair value through profit or loss" and is measured at fair value, which approximates carrying value due to the short-term nature of these instruments. Accounts receivable are designated as "loans and receivables". Accounts payable and accrued liabilities, and advances from related parties are designated as "other liabilities". Long-term investments are financial instruments classified as "available-for-sale". They are initially recorded at their fair value unless fair value is not readily determinable. Subsequent changes to the market value of the investments are recorded as changes to other comprehensive loss. Realized gains and losses are recognized in net loss when the investments are actually disposed of.

Financial instruments measured at fair value on the statement of financial position require classification into one of the following levels of the fair value hierarchy:

- Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 - Inputs other than quoted prices listed in Level 1 that are observable for the asset or liability either directly or indirectly;
- Level 3 - Inputs that are not based on observable market data.

The fair value hierarchy level at which a fair value measurement is categorized is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. Cash is measured at Level 1 and the investment is recorded at Level 2.

A financial asset is assessed at each reporting date to determine whether it is impaired based on objective evidence indicating that one or more events have had a negative effect on the estimated future cash flows of that asset. An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the net present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value and any amounts in OCI are transferred to earnings. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics. All impairment losses are recognized in net earnings. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized.

(r) Capital Disclosures

The Company discloses its objective, policies and processes for managing capital.

(s) Recent accounting pronouncements

IFRS 9, "Financial Instruments" ("IFRS 9") was issued in 2009 which addresses the classification and measurement of financial assets. The new standard defines two instead of four measurement categories for financial assets, with classification to be based partly on the Company's business model and partly on the characteristics of the contractual cash flows from the respective financial asset. An embedded derivative in a structured product will no longer have to be assessed for possible separate accounting treatment unless the host is a non-financial contract. A hybrid contract that includes a financial host must be classified and measured in its entirety. Application of IFRS 9 is mandatory for financial periods beginning on or after January 1, 2015. The Company is currently assessing the impact of this standard.

California Nanotechnologies Corp
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Notes to the condensed consolidated Financial Statements
United States Dollars

For the six month period ended August 31, 2013

3. Significant accounting policies – continued

(s) Recent accounting pronouncements - continued

IFRS 10, “Consolidated Financial Statements” (“IFRS 10”) has been issued and is effective for periods beginning on or after January 1, 2013. This standard will replace all of the existing guidance on control and consolidation in IAS 27, Consolidated and separated financial statements and SIC12 Consolidation – Special Purpose Entities. IFRS 10 changes the definition of control so the same criteria are applied to all entities to determine control and includes detailed guidance that addresses the different ways in which a reporting entity (investor) might control another entity (investee). The Company does not expect the impact of the standard to be significant.

IFRS 11, “Joint Arrangements” (“IFRS 11”) has been issued and is effective for periods beginning on or after January 1, 2013. The new rules are aimed at providing investors with greater clarity about a participant’s involvement in a joint arrangement. The key change in relation to the participant’s contractual rights and obligations arising from their joint arrangements will determine the accounting under IFRS 11 rather than the arrangement’s legal form. The Company does not expect the impact of the standard to be significant.

IFRS 12, “Disclosure of interest in other entities” (“IFRS 12”) has been issued and is effective for periods beginning on or after January 1, 2013. IFRS 12 sets out the required disclosures for entities reporting under the two new standards IFRS 10 and IFRS 11 Joint arrangements. The new rules also replace the disclosure requirements currently found in IAS 28 Investments in associates. IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity’s interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. The Company does not expect the impact of the standard to be significant.

On May 12, 2011, the IASB issued IFRS 13, “Fair value measurements” (“IFRS 13”), which establishes a single source of guidance for fair value measurement under IFRSs. IFRS 13 defines fair value, provides guidance on its determination and introduces consistent requirements on when fair value measurement is required; it prescribes how fair value is to be measured if another Standard requires it. IFRS 13 is effective for the Company on January 1, 2013. Early adoption is permitted and the standard is required to be applied prospectively. The Company uses fair value measurements in the preparation of its financial statements and consequently will be subject to the new requirements.

In June 2011, the IASB amended IAS 1, “Presentation of Financial Statements” (“IAS 1”). The principal change resulting from the amendments to IAS 1 is a requirement to group together items within OCL that may be reclassified to the statement of loss and comprehensive loss. The amendments also reaffirm existing requirements that items in OCL and net income should be presented as either a single statement or two consecutive statements. The amendment to IAS 1 will be effective for the Company’s fiscal years beginning on January 1, 2013, with earlier application permitted. The Company does not expect any changes to its consolidated financial statement presentation from this amendment as the items within OCL that may be reclassified to the statement of loss and comprehensive loss are already grouped together.

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4. Advances from related parties

Advances from related parties are from an entity related through common control. The advances bear interest at 5% through December 31, 2012 and 2% thereafter per annum and are due upon demand. There are no set terms for repayment and the loan is secured by all the assets of the Company. No interest was paid on the advances with accrued interest in the amount of \$104,730 (August 31, 2012 – \$80,417). The related party engaged with the Company for revenue of \$60,112 (August 31, 2012 – \$1,650) and incurred expenses of \$3,657 (August 31, 2012 – \$2,000). The transactions are considered to be in the normal course of operations and are initially recognized at their fair value.

	August 31, 2013	February 28, 2013
Advances from related parties	\$ 1,245,059	\$ 1,145,424

Significant subsidiary:

The table below provides information relative to California Nanotechnologies Corp.'s significant subsidiary, including the entity's name, its jurisdiction of incorporation/formation, the percentage of securities directly or indirectly owned by California Nanotechnologies Corp., and the market areas served, if applicable.

Company (Jurisdiction of Incorporation/ Formation	Percentage of ownership by California Nanotechnologies Corp.	Overview	Market Area
California Nanotechnologies Inc. (California, USA)	100%	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.	International
White Roof Solutions Inc. (California, USA)	100%	Wholly-owned subsidiary of California Nanotechnologies Inc. which was formed and incorporated on May 21, 2012. It conducts sales of the application of white solar reflective roof coatings.	USA

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5. Business Combination

On May 17, 2012, the Company closed an asset purchase agreement to acquire all the assets of White Roof Systems, Inc. of Culver City, California. White Roof Systems Inc. developed the protocol necessary for the application of a patented new white roof coating system. The Company will be undertaking these activities through a wholly owned subsidiary called White Roof Solutions, Inc.

The acquisition has been accounted for using the acquisition method of accounting with an effective date of May 17, 2012, whereby the assets acquired are recorded at their fair values.

Consideration paid:	
Cash	\$ 13,535
Assets acquired:	
Equipment	5,770
Inventory	<u>3,415</u>
	<u>9,185</u>
Goodwill	\$ 4,350

At February 28, 2013 Management performed an impairment assessment of goodwill and determined that the total value of goodwill was impaired.

6. Equipment

	Nanotechnology equipment	Roof coating equipment	Totals
Cost			
At February 29, 2012	902,499	-	902,499
Additions from business combination (Note 5)	-	5,770	5,770
Additions	-	2,750	<u>2,750</u>
At February 28, 2013	902,499	8,520	911,019
Additions	9,963	-	<u>9,963</u>
At August 31, 2013	912,462	8,520	920,982
Accumulated depreciation			
At February 29, 2012	642,079	-	642,079
Depreciation	127,109	1,863	<u>128,972</u>
At February 28, 2013	769,188	1,863	771,051
Depreciation	46,984	1,420	48,404
At August 31, 2013	816,172	3,283	819,455
Net book value			
At February 28, 2013	133,311	6,657	139,968
At August 31, 2013	96,290	5,237	101,527

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7. Intangible assets

	Trade secrets	Use of operating rights	Customer list	Customer contract	Goodwill	Totals
Cost						
At February 29, 2012	100,000	50,000	27,000	23,000	-	200,000
Additions from business combination (Note 5)	-	-	-	-	4,350	4,350
Impairment (Note 5)	-	-	-	-	(4,350)	(4,350)
At February 28, 2013	100,000	50,000	27,000	23,000	-	200,000
At August 31, 2013	100,000	50,000	27,000	23,000	-	200,000
Accumulated amortization						
At February 29, 2012	40,557	20,277	10,950	9,326	-	81,110
Amortization	6,667	3,333	1,800	1,751	-	13,551
At February 28, 2013	47,224	23,610	12,750	11,077	-	94,661
Amortization	3,333	1,667	900	549	-	6,449
At August 31, 2013	50,557	25,277	13,650	11,626	-	101,110
Net book value						
At February 28, 2013	52,776	26,390	14,250	11,923	-	105,339
At August 31, 2013	49,443	24,723	13,350	11,374	-	98,890

8. Investment

The long-term investment consists of an available-for-sale investment in approximately 2.7% of the common shares, at \$0.10 per share, of SRL Nano Corporation, a privately held California company specializing in the use of new patented materials that exhibit high strength at elevated temperatures. As there is no quoted market price for the shares, they have been measured at cost.

At June 18, 2012, a complaint was filed by the Company with the Superior Court of the State of California seeking compensation for damages from SRL Nano. At January 31, 2013, the parties entered into a settlement agreement and mutual release to have the investment sold to a third party for \$250,000 with a down payment of \$9,000. By August 9, 2013, the investment was sold in the amount of \$250,000.

	<u>Carrying Amount</u>
Investment at February 28, 2013	\$ 250,000
Proceeds from sale of investment	<u>250,000</u>
Investment at August 31, 2013	\$ -

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9. Compensation of Key Management Personnel

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

	August 31, 2013	August 31, 2012
Remuneration	\$ 39,506	\$ 43,502

Key management personnel of the Company include the CEO, CFO, and Vice-president.

10. Share capital

(a) Authorized:

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

(b) Issued:

	Number	Amount
Total issued and outstanding, February 29, 2012	25,820,000	\$ 2,386,148
Total issued and outstanding, February 28, 2013	25,820,000	2,386,148
Total issued and outstanding, August 31, 2013	25,820,000	2,386,148

(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.

	Number of Options	Weighted Average price (CDN)
Balance, February 29, 2012	1,390,000	\$ 0.25
Granted	400,000	0.10
Forfeited	(375,000)	0.10
Expired	(195,000)	0.24
Balance, February 28, 2013	1,220,000	\$ 0.10
Balance, August 31, 2013	1,220,000	\$ 0.10

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10. Share capital - continued

During the period ended August 31, 2013, the Company recorded \$4,412 in share-based compensation expense (August 31, 2012 - \$18,510). The fair value of these options was estimated using the Black Scholes option-pricing model with the following assumptions:

Risk free interest rate (%)	1.3
Expected term (years)	5.0
Expected volatility (%)	155.9
Dividend per share	-
Forfeiture rate (%)	1.4

The following tables summarize information about stock options outstanding at August 31, 2013:

Options Outstanding				Options Exercisable	
Exercise Price	Number of options	Weighted Average of Remaining Contractual Life (years)	Weighted Average Exercise Price (CDN)	Number of Options	Weighted Average Exercise Price (CDN)
\$ 0.10 - 0.20	1,220,000	3.0	\$ 0.10	638,327	\$ 0.11

The following tables summarize information about stock options outstanding at February 29, 2012:

Options Outstanding				Options Exercisable	
Exercise Price	Number of options	Weighted Average of Remaining Contractual Life (years)	Weighted Average Exercise Price (CDN)	Number of Options	Weighted Average Exercise Price (CDN)
\$ 0.10 - 0.20	1,220,000	3.5	\$ 0.10	414,992	\$ 0.11

11. Segmented information

Management has segmented the Company's business based on differences in products and services and management responsibility. The Company's business is conducted predominantly through two major business segments - Nanocrystalline materials and Solar coatings.

Nanocrystalline materials include the development, processing, marketing and sale of nanocrystalline materials for coatings and bulk material applications. Solar coatings conduct sales of the application of white solar reflective roof coatings. Both segments' operations are located in Southern California.

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11. Segmented information - continued

The Company has utilized and reported results based on each segment since the inception of solar coatings at May 17, 2012 as follows:

August 31, 2013	Nanocrystalline materials	Solar coatings	Inter-corporate elimination	Totals
Revenues	\$ 118,390	\$ -	\$ -	\$ 118,390
Net loss	(176,596)	(5,688)	-	(182,284)
Assets	480,481	33,803	(50,985)	463,299
Liabilities	1,291,767	50,985	(50,985)	1,291,767

August 31, 2012	Nanocrystalline materials	Solar coatings	Inter-corporate elimination	Totals
Revenues	\$ 112,532	\$ 86,312	\$ -	\$ 198,844
Net income (loss)	(226,221)	15,610	-	(210,611)
Assets	648,527	32,315	(29,176)	651,666
Liabilities	1,017,076	3,170	(15,641)	1,004,605

12. Loss per share

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

1,220,000 (August 31, 2012 – 1,470,000) options were excluded in calculating the weighted-average number of diluted common shares outstanding for the period ended August 31, 2013, because their exercise price was greater than the annual average common share market price in the periods. Outstanding options were the only potential dilutive instruments.

13. Seasonality

Seasonal fluctuations have no material impact on the Company's revenues.

14. Contributed surplus

	August 31, 2013	February 28, 2013
Balance, beginning of period	\$ 154,490	\$ 112,436
Share based compensation	4,412	42,054
Balance, end of period	\$ 158,902	\$ 154,490

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15. Financial instruments

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

	August 31, 2013		February 28, 2013	
	Carrying Value	Fair Value	Carrying Value	Fair Value
At fair value through profit or loss				
Cash	\$ 218,015	\$ 218,015	\$ 5,235	\$ 5,235
Loans and receivables				
Accounts receivable	11,611	11,611	23,550	23,550
Available for sale				
Investment	-	-	250,000	250,000
Other liabilities				
Accounts payable and accrued liabilities	45,908	45,908	62,847	62,847
Advances from related parties	1,245,059	1,245,059	1,145,424	1,145,424

The table below sets out fair value measurements using fair value hierarchy.

	Total	Level 1	Level 2	Level 3
Assets				
Cash	\$ 218,015	\$ 218,015	-	-

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

As disclosed above, the Company holds various forms of financial instruments. The nature of these instruments and the Company's operations expose the Company to foreign currency risk. 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 use off balance sheet 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, until the Company emerges from the development stage. At August 31, 2013, the Company had a working capital deficiency of \$1,028,885 (February 28, 2013 – \$1,145,903).

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15. Financial instruments - continued

Foreign currency risk

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

The Company manages its exposure to foreign currency fluctuations by maintaining foreign currency bank accounts and receivables to offset foreign currency payables and planned expenditures. The Company reports in its functional currency, the United States dollar. At August 31, 2013, the Company had the following balances denominated in Canadian dollars. The balances have been translated into United States currency in accordance with the Company's foreign exchange accounting policy.

	USD	USD
	August 31, 2013	February 28, 2013
Cash	\$ 335	\$ 602
Accounts Payable	18,031	33,691

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

	Impact on Net Loss
U.S. Dollar Exchange Rate – 10% increase	\$ 17,696
U.S. Dollar Exchange Rate – 10% decrease	(17,696)

Other Price Risk

The Company has financial instruments that may fluctuate in value as a result of changes in market price. The Company had an investment in shares of SRL Nano Corporation. This investment was recorded on the statement of financial position at cost.

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 period ended August 31, 2013, the Company was engaged in contracts for products with two (August 31, 2012 – three) customers in excess of 10% of revenue, which accounted for \$85,186 (August 31, 2012 - \$136,695) or 72% (August 31, 2012 – 69%) of the Company's total revenue. The maximum exposure to credit risk is the carrying value of account receivable. The table below provides an analysis of our current financial assets and the age of our past due but not impaired accounts receivables by type of credit risk.

Total	Current	≤ 30 days	> 30 days ≤ 60 days	60 days ≤ 90 days	> 90 days
\$ 11,611	\$ 3,648	\$ 1,900	\$ -	\$ -	\$ 6,063

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16. 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 period ended August 31, 2013.