

California Nanotechnologies Corp.
For the interim period ended May 31, 2014

MANAGEMENT DISCUSSION AND ANALYSIS

This Management Discussion and Analysis (“MD&A”) should be read in conjunction with the Condensed Consolidated Financial Statements of California Nanotechnologies Corp. (the “Company” or “Cal Nano”) for the period ended May 31, 2014 and the related Notes. The Company’s reporting currency is in United States (“US”) dollars and all amounts in this MD&A are expressed in US 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 IASB. This discussion has been completed as of July 21, 2014.

A. Company Overview

Cal Nano’s mission is to pioneer and commercialize next-generation Nanophase materials and products to fulfill rising industry demand. Cal Nano’s technologies enhance material performance by improving engineering properties. The Company is now transitioning to commercialization. Target markets are the sports and recreation, consumer electronics, aerospace, defense, automotive, medical, and the Oil and Gas industries.

As the Official North American Technical and Training Partner of Fuji-SPS, pioneer of Spark Plasma Sintering (“SPS”) technology, Cal Nano offers both SPS services and equipment support. SPS is the leading technology for sintering Nanophase, Functionally Graded, Thermoelectric, and other advanced materials. The Company is enhancing the technology and exploring more potential commercial opportunities via extensive collaborations and partnerships with select universities and tier one production suppliers.

The registered and head office of California Nanotechnologies Corp. is located at Suite 1600, 205 – 5th Avenue S.W., Calgary, Alberta T2P 2V7. The operating office of California Nanotechnologies Corp. is located 17220 Edwards Road, Cerritos, California, 90703.

Since inception, Cal Nano has been actively building industry recognition through published papers and other scientific endeavors. A listing of recent published papers, patents and trade show activities are included below.

Technical Paper for Journals, etc.

[1] C. Melnyk, A. Maxin, B. Weinstein, D. Grant, R. Gansert, Coatings to Extend Equipment Service Life, Fastener Technologies, Inc., Oct./Nov. 2013, pg. 60;

- [2] S.S. Dheda, Y.K. Kim, C. Melnyk, W. Liu, F.A. Mohamed, Corrosion and in vitro biocompatibility properties of cryomilled-spark plasma sintered commercially pure titanium, *J. Mater. Sci.: Mater. Med.*, vol. 24, pp. 1236-1249 (2013)
- [3] S.S. Dheda, C. Melnyk, F.A. Mohamed, Addition of titanium nitride nanoparticles for grain size stabilization of cryomilled spark plasma sintered commercially pure titanium, *Materials Science and Engineering A*, vol. 584, pp. 88-96 (2013)
- [4] C. Melnyk, B. Weinstein, D. Grant, R. Gansert, Improved Properties of Light Alloys for Medical Devices Using Near-Nano and Nano-Based Materials, *Materials & Processes for Medical Devices (MPMD)*, Nov. 2011;
- [5] C. Melnyk, B. Weinstein, D. Lujan, D. Grant, R. Gansert, M. Watson, Investigation of Mechanical Properties of Coatings and Bulk Components of Various Grain Sized Tungsten-Carbide-Cobalt Based Materials, *Proceeding of International Thermal Spray Conference*, Sept. 2011, Hamburg, Germany;
- [6] C. Melnyk, B. Weinstein, D. Lujan, D. Grant, R. Gansert, Cold Forged Nano-based Light Alloys and Composites Components, *Fastener Technology Int.*, Aug. 2011;
- [7] C. Melnyk, B. Weinstein, D. Lujan, D. Grant, R. Gansert, Production of Nano-based Light Alloys and Composites for Aerospace Fasteners, *Adv. Mat. & Proc.*, Vol. 169, No. 5, May 2011, pp. 42-44;
- [8] C. Melnyk, S. Schroeder, D. Grant, S. Keener, and R. Gansert, Improved Properties of Cryomilled Light Alloys Consolidated Using Spark Plasma Sintering and Hot Isostatic Pressing, *JOM*, Vol. 63, No. 2, pp. 65-68, 2011; (Collaboration with Boeing Phantom Works);
- [9] M. Pozuelo, C. Melnyk, W. Kao, J.-M Yang, Cryomilling and Spark Plasma Sintering of Nanocrystalline Magnesium-Based Alloy, Submitted to *Journal of Materials Research*, Submission, Oct. 2010; (Collaboration with UCLA);
- [10] C. Melnyk, B. Weinstein, D. Lujan, D. Grant, R. Gansert, Improved Mechanical Properties of WC-10%Co-4%Cr and WC-12%Co Coatings as a Function of Grain Size, *Proceeding of International Thermal Spray Conference*, 2011, Germany, Submission Oct. 2010;
- [11] C. Xu, S. Schroeder, P. Berbon, T. Landgon, Principles of ECAP-Conform as a Continuous Process for Achieving Grain Refinement: Application to an Aluminum Alloy, *Acta Materialia*, Vol. 58, (4), 1379-1386;
- [12] C. Melnyk, S. Schroeder, D. Grant, R. Gansert, and M. Watson, "Improved Mechanical Properties of Coatings and Bulk Components as a Function of Grain Size", *International Thermal Spray Conference Proceedings*, ASM International, Materials Park, OH., USA 2010;
- [13] S. Schroeder, C. Melnyk, D. Grant, S. G. Keener, and R. Gansert, "Improved Properties of Light Alloys produced by Cryomilling (Nano) and Bulk Consolidation Processing", *Proceedings of Aeromat 2009*, Dayton, OH, USA;
- [14] S. Schroeder, C. Melnyk, D. Grant, R. Gansert, G. Saha, and L. Glenesk, "Properties of Powders, Coatings, and Consolidated Components Produced from Nano-, and Near-Nano Crystalline Powder", *Expanding Thermal Spray Performance to New Markets and Applications*, Ed. R. Maple, M. Hyland, Y. Lau, R. Lima, G. Montavon, ASM International, Materials Park, OH., USA 2009;

[15] C. Melnyk, S. Schroeder, D. Grant, G. Saha, L. Glensk, and R. Gansert “Nano Powders Produce Improved Wear Resistant Thermal Spray Coatings”, American Welding Journal, July, 2009, pp. 50 – 55.

PATENTS

[1] US Patent 7,481,091 B1, January 27, 2009, Material Processing System, D. Grant, P. Berbon, T. Wang, P. Burkey.

CONFERENCES ATTENDED IN 2013

[1] 8th Annual EOH Technical Symposium, Nanomaterials: Implications for Environmental and Occupational Health, California State University, Northridge, March 7, 2013

[2] Aeromat 2013, Bellevue, WA, Presentations on Improved Properties of Cermet Coatings as a Function of Grain Size, and a Review of the Properties of Consolidated Forms of Light Alloys Produced from Ultrafine, Nano-, and Near-nano Sized Powders at the conference; April 2-5, 2013

[3] ITSC 2013, Busan, South Korea; May 13-15, 2013

[4] ITSA 2013, Ogden, UT, Presented Advances in Materials, New Industries Entering the Thermal Spray Field at the conference; June 5-6, 2013

[5] MS&T 2013, Montreal, Canada, Improved Properties of Ultrafine, Nano, and Multi-Modal Grain Size Light Alloys Consolidated Using Spark Plasma Sintering, Oct. 29-31, 2013

CONFERENCES ATTENDED IN 2014

[1] TMS 2014, San Diego, CA, Exhibitor, February 16-20, 2014

[2] MRS 2014, San Francisco, CA, Exhibitor, April 21-25, 2014

B. Markets

Cal Nano currently services customers in the aerospace, defense, academia, automotive, medical, resource development and sports and recreation industries. A related company, Omni-Lite Industries, has many long-standing relationships in these areas, providing further access to future key customers.

C. Financial Results

Revenue: For the period ended May 31, 2014, the Company reported revenue of \$159,198 compared to \$56,535 from the prior period for an increase of 182%. This increase is primarily due to sales increases in the oil and gas division.

Net Loss: Net loss for the period ended was \$54,218. Amortization and depreciation, salaries, wages and benefits, and supplies were the greatest expense items. Salaries, wages and research may increase as the Company services the growth in the oil and gas division and other divisions

Operating Expenses: Overall operating expenses of \$181,843 were higher by 16% when compared to the prior period. These expenses are related to salaries, wages and benefits due to the growth of the Company.

Loss per share: Basic loss per share was \$0.01 (\$0.01 CAD). The weighted average number of shares was 28,888,428.

Basic loss per share has been calculated using the weighted average number of shares outstanding during the period and the loss attributable to common shareholders. For all periods presented, loss attributable to common shareholders equals reported loss.

Diluted earnings per share is calculated based on the treasury stock method, and reflects the potential dilution of securities by including stock options and contingently issuable shares, in the weighted average number of common shares outstanding for a period, if dilutive. Diluted earnings per common share have not been presented as the effect of options and warrants on basic loss per share would be anti-dilutive.

SUMMARY OF FINANCIAL HIGHLIGHTS (US \$)

All figures in US dollars unless noted.

Basic Weighted Average Shares Issued And Outstanding : 28,888,428	For the period ended May 31, 2014	For the period ended May 31, 2013	% Increase (Decrease)
Revenue	\$ 159,198	\$ 56,535	182%
Cash flow used for operations ⁽¹⁾	(8,711)	(77,591)	-
Net Loss	(54,218)	(111,148)	-
LPS (US)	(0.01)	(0.01)	-
LPS (CAD)	(0.01)	(0.01)	-

(Note: at 05/28/14, \$1US = \$1.084 CAD; 05/28/13, \$1US = \$1.034 CAD)

⁽¹⁾ Cash flow used for operations is a non-GAAP term requested by the oil and gas investment community that represents net earnings adjusted for non-cash items including depreciation, depletion and amortization, deferred taxes, asset write-downs and gains (losses) on sale of assets, if any.

Selected Quarterly Information

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

ALL FIGURES IN US DOLLARS UNLESS NOTED

	May 31, 2013	February 28, 2013	November 30, 2013	August 31, 2013	May 31, 2013	February 28, 2013	November 30, 2012	August 31, 2012
Revenue	\$159,198	\$175,172	\$79,919	\$61,855	\$ 56,535	\$40,024	\$22,434	\$136,705
Cash Flow used for operations (1)	(8,711)	(6,310)	(69,237)	(45,245)	(77,591)	(93,514)	(113,122)	(59,216)
Net Loss	(54,218)	(30,694)	(89,387)	(70,953)	(111,331)	(164,010)	(157,190)	(103,092)
LPS(US)	(.002)	(.001)	(.004)	(.003)	(.004)	(.007)	(.006)	(.004)
LPS(CAD)	(.002)	(.001)	(.004)	(.003)	(.004)	(.007)	(.006)	(.004)

Liquidity and Capital Resources

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

	May 31/2014	May 31/2013
Net cash used for operating activities	\$ (69,931)	\$ (94,701)
Net cash from financing activities	602,341	76,306
Net cash from investing activities	-	9,000
Net increase (decrease) in cash	532,410	(9,395)
Cash at the beginning of the period	4,234	5,235
Cash at the end of the period	536,644	(4,160)

At May 31, 2014, the sources of liquidity were cash from financing activities. The cash balance was \$536,644. At the end of period, the Company's working capital deficiency (current assets – current liabilities) was \$633,913.

-Cash flow used for operating activities decreased to \$69,931 due to the growth of the Company within the oil and gas division.

-Cash flow from financing activities was \$602,341. On April 9, 2014, the Company completed a private placement of 5,290,296 units, with each unit consisting of one common share and one-half of one common share purchase warrant, at a price of \$0.135 CAD. The purchase warrants have a one year term with an exercise price of \$ 0.225 CAD. The private placement resulted in the Company receiving total gross proceeds of \$714,190 CAD. The Company began repaying the advances from the related party.

-Cash flow from investing activities was \$nil.

The Company's functional and reporting currency is in US 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 US dollar.

Foreign Exchange: 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 United States dollar.

Off-Balance Sheet arrangements: The Company does not have any off-balance sheet arrangements.

D. Future Developments

The developments made at Cal Nano have made milled “nano alloys” significantly more feasible for a large array of performance components and applications. Cal Nano plans to pursue commercialization of “nano alloys” via several production techniques including bulk consolidation, thermal spray and the cold heading of individual nano components. To help develop these products, several renowned industry experts have joined the Cal Nano team to assist in executing these opportunities.

Based on the positive SPS technical results and multiple customer relationships developed at Cal Nano over the last 6 years, the Company has signed an official partnership contract, solidifying the relationship with the inventors and leading manufacturers of SPS equipment, Fuji-SPS. This relationship places Cal Nano as exclusive Technical and Marketing Partner in North America. To complement the existing equipment at Cal Nano larger production scale equipment is being evaluated as customers as for potential production products are being developed by Cal Nano and its partners and collaborators.

As a large scale proprietary oil and gas application requiring advanced nano-engineered alloys that require cryogenic milling, (Cryo-milling), is now underway. Medium scale material development and optimization efforts have been undertaken. The growing volume requirements for cryo-milled materials have refocused Company plans and developments, requiring the Company to scale up towards commercialization and the cost reduction of cryo-milled materials. In this regard in June 2014, the Company purchased a larger mill, increasing its milling capacity by a factor of six.

In order to pursue the ultimate scale up of this technology, significantly larger equipment will be required to produce commercial quantities of material. It is anticipated that up to 3 larger mills may be necessary to reach the output levels required. Management of Cal Nano anticipates that these tasks could cost up to US\$ 900,000 to complete and will require a larger facility or joint venture relationship with a major partner in this industry.

The successful launch of the world’s highest performance commercial track shoe, adidas’ flagship, “adiZero Prime”, has increased “nano alloy” product sales towards commercialization. Continuous efforts to reduce the cost of nano-engineered alloys will allow the current and other technologies to be applied to the much larger volume “replaceable spike” market which several large customers and consumers have expressed significant interest in, resulting from the marketable success of the nano-ceramic “permanent spike” in the adiZero Prime SP and also from athletic field trials conducted with Cal Nano’s next generation material systems currently under development.

E. Risk Factors

The Company is subject to a number of 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 industry and specifically the production of nanocrystalline materials require extensive experimental effort and can require significant investment. Customers may be hesitant to implement any new materials developed without extensive and time-consuming testing.

No Assurance of Commercial Production

Cal Nano is a research and development firm with limited history of production or sales. There is no assurance that it will achieve commercial levels of production or sales for any product .

Relationships with Customers

The success of Cal Nano is directly related to the strength of its relationships with and the economic success of its larger customers. Should Cal Nano's relationships with these customers become strained or the profitability of these customers become negatively affected, the Company's profitability may be impacted.

Competition

Cal Nano is engaged in the technology industry. There is a high degree of competition in these industries 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 in order 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.

Government Regulations

Cal Nano may be subject to various laws, regulations, regulatory actions and court decisions that may have negative effects on Cal Nano. Changes in the regulatory

environment imposed upon Cal Nano could adversely affect the ability of Cal Nano 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.

F. 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 Chief Financial Officer have concluded, based on their evaluation at May 31, 2014, 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 Chief Financial Officer 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.

G. Outstanding Share Capital

At July 21, 2014:

- Common Shares issued and outstanding: 31,230,296
- Stock options:

	Description	Number
	Options outstanding at May 31, 2014	2,455,000
	Options - granted	-
	- exercised	-
	- forfeited	-
	- expired	-
	Options outstanding at July 21, 2014	2,455,000
	Options exercisable at July 21, 2014	838,331

H. Transactions with Related Parties

Advances from related parties are from a non arms length entity. The advances bear interest at 2% 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. Interest in the amount of \$5,571 (February 28, 2014 - \$nil) was paid on the advances with accrued interest in the amount of \$112,002 (February 28, 2014 – \$111,814). The related party engaged with the Company for revenue of \$4,814 (May 31, 2013 – \$32,097) and incurred expenses of \$608 (May 31, 2013 – \$474). The transactions are considered to be in the normal course of operations and are initially recognized at their fair value.

I. Third Party Investor Relations Contracts

On May 12, 2014, the Company entered into a twelve month consulting agreement with QIS Capital (547853 BC Ltd.) to direct Cal Nano's public and investor relations activities. No third party investor relations arrangements were made in 2013.

J. Investments

At June 18, 2012, a complaint was filed by the Company with the Superior Court of the State of California by California Nanotechnologies Inc. versus SRL Nano Corporation (“SRL Nano”), Scott Liu, and Mr. Liu’s other affiliated companies. The Company was looking for compensation for damages resulting from breach of contract regarding the worldwide exclusive license to the patents warranted in a license agreement between the Company and SRL Nano. The claim was in the amount of not less than \$250,000, interest, and the legal costs of the suit. Punitive damages for fraud, breach of fiduciary duty and injunctive relief for the material patent rights from SRL Nano were also being sought. 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. At August 9, 2013, the \$250,000 and certain other trade payables had been received.

K. Board of Directors

The Company's directors are material shareholders.

L. 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 in a manner that minimizes risk exposure to the extent practical.

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

	May 31, 2014		February 28, 2014	
	Carrying Value	Fair Value	Carrying Value	Fair Value
At fair value through profit or loss				
Cash	\$ 536,644	\$ 536,644	\$ 4,234	\$ 4,234
Loans and receivables				
Accounts receivable	165,333	165,333	129,847	129,847
Other liabilities				
Accounts payable and accrued liabilities	54,081	54,081	74,447	74,447
Advances from related parties	1,137,951	1,137,951	1,167,980	1,167,980

The table below sets out fair value measurements using fair value hierarchy at May 31, 2014.

	Total	Level 1	Level 2	Level 3
Assets				
Cash	\$ 536,644	\$ 536,644	-	-

There have been no transfers during the year 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 financial obligations. 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 partially mitigated by managing the cash flow through controlling receivables

and payables to vendors and related parties. At May 31, 2014, the Company had a working capital deficiency of \$633,913 (February 28, 2014 – \$1,099,920).

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 to facilitate foreign currency payables and planned expenditures. The Company reports in its functional currency, the United States dollar. At May 31, 2014, 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 May 31, 2014	USD February 28, 2013
Cash	\$ 503,255	\$ 410
Accounts Payable	18,380	31,053

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	\$ (48,488)
U.S. Dollar Exchange Rate – 10% decrease	48,488

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 May 31, 2014, the Company was engaged in contracts with one (May 31, 2013 – two) customer in excess of 10% of revenue, which accounted for \$131,643 (May 31, 2013 - \$39,656) or 83% (May 31, 2013 – 70%) of the Company's total revenue. The maximum exposure to credit risk is the carrying value of accounts receivable. No allowance for doubtful accounts was recorded (May 31, 2013 – \$nil). The table below provides a summary of aged accounts receivable.

Total	Current	≤ 30 days	> 30 days ≤ 60 days	60 days ≤ 90 days	> 90 days
\$ 165,333	\$ 103,041	\$ -	\$ 35,309	\$ 26,983	\$ -

M. 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 year ended February 28, 2014.

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 that is not contained in the Company's financial statements.

Additional information

Further information regarding California Nanotechnologies Corp. can be accessed under the Company's public filings found at www.sedar.com.

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.