California Nanotechnologies Corp.

(A Development Stage Company)

Condensed Consolidated Financial Statements

For the interim six month period ended August 31, 2012

(in United States Dollars)

Contents

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, 2012.

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, 2012 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 5, 2012

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, 2012 (unaudited)	February 29, 2012
ASSETS			
Current assets			
Cash		**$ 4,626**	$ 26,967
Accounts receivable	**14**	**65,579**	12,262
Prepaid expenses and deposits		**13,137**	3,814
Total current assets		**83,342**	43,043
Equipment	**5**	**201,822**	260,420
Intangible assets	**6**	**116,501**	118,890
Investment	**7**	**250,000**	250,000
Total assets		**$ 651,665**	$ 672,353
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		**$ 59,504**	$ 67,892
Income taxes payable		**1,600**	800
Advances from related parties	**4**	**943,501**	764,500
Total current liabilities		**1,004,605**	833,192
Going concern	**2**		
Shareholders' equity			
Share capital	**10**	**2,386,148**	2,386,148
Contributed surplus	**13**	**130,946**	112,436
Deficit		**(2,870,034)**	(2,659,423)
Total shareholders' equity		**(352,940)**	(160,839)
Total liabilities and shareholders' equity		**$ 651,665**	$ 672,353

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, 2012**	For the six month period ended August 31, 2011	**For the three month period ended August 31, 2012**	For the three month period ended August 31, 2011
Revenue		**$ 198,844**	$ 89,565	**$ 136,705**	$ 58,762
Expenses					
Advertising and promotion		**4,676**	3,747	**2,726**	2,166
Amortization - equipment and intangible assets	**5, 6**	**71,106**	71,131	**35,541**	35,566
Consulting		**-**	14,531	**-**	-
Office		**10,586**	6,869	**7,725**	2,410
Professional fees		**30,168**	29,755	**16,244**	20,047
Repairs and maintenance		**878**	8,194	**878**	2,278
Research		**50,279**	17,302	**24,311**	17,302
Salaries, wages and benefits		**110,761**	73,029	**68,571**	36,522
Supplies		**81,882**	51,863	**58,564**	27,579
Travel and entertainment		**2,851**	316	**2,547**	124
Share based compensation	**10(c), 13**	**18,510**	4,000	**8,335**	3,500
		381,697	280,737	**255,442**	147,494
Loss from operations		**(182,853)**	(191,172)	**(88,737)**	(88,732)
Foreign exchange loss		**(809)**	(3,623)	**(214)**	(3,305)
Interest expense		**(26,149)**	(15,370)	**(14,141)**	(9,124)
Loss before income taxes		**(209,811)**	(210,165)	**(103,092)**	(101,161)
Provision for income taxes		**800**	800	**-**	-
Net loss and comprehensive loss		**$ (210,611)**	$ (210,965)	**$ (103,092)**	$ (101,161)
Loss per share - basic and diluted	**11**	**$ (0.01)**	$ (0.01)	**$ (0.01)**	$ (0.01)
Weighted average shares outstanding – basic and diluted	**11**	**25,820,000**	24,289,429	**25,820,000**	25,281,957

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	**13**	**-**	**18,510**	**-**	**18,510**
Net loss		**-**	**-**	**(210,611)**	**(210,611)**
Balance at August 31, 2012		**$ 2,386,148**	**$ 130,946**	**$ (2,870,034)**	**$ (352,940)**

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, 2012**	For the six month period ended August 31, 2011	**For the three month period ended August 31, 2012**	For the three month period ended August 31, 2011
Cash provided by (used for) the following activities					
Operating activities					
Net loss		**$ (210,611)**	$ (210,965)	**$ (103,092)**	$ (101,161)
Amortization - equipment and intangible assets	**5, 6**	**71,106**	71,131	**35,541**	35,566
Stock based compensation	**13**	**18,510**	4,000	**8,335**	3,500
		(120,995)	(135,834)	**(59,216)**	(62,095)
Changes in working capital accounts					
Accounts receivable		**(53,317)**	(19,784)	**(11,899)**	(5,898)
Prepaid expenses and deposits		**(9,323)**	(29,430)	**(10,855)**	(31,529)
Income taxes payable		**800**	800	**-**	-
Accounts payable and accrued liabilities		**(8,388)**	(1,918)	**(19,230)**	(11,418)
Net cash used for operating activities		**(191,223)**	(186,166)	**(101,200)**	(110,940)
Financing activities					
Issue of common shares	**10(b)**	**-**	217,104	**-**	114,377
Payments to related parties	**4**	**(50,692)**	(157,345)	**(47,726)**	(151,089)
Proceeds from related parties	**4**	**229,694**	160,745	**141,512**	83,420
Net cash provided by financing activities		**179,002**	220,504	**93,786**	46,708
Investing activities					
Purchase of equipment	**5**	**(5,770)**	-	**(5,770)**	-
Purchase of intangibles	**6**	**(4,350)**	-	**(4,350)**	-
Net cash used for investing activities		**(10,120)**	-	**(10,120)**	-
Increase/(decrease) in cash resources		**(22,341)**	34,338	**(17,534)**	(64,232)
Cash, beginning of period		**26,967**	5,818	**22,160**	104,388
Cash, end of period		**4,626**	$ 40,156	**$ 4,626**	$ 40,156

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

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, 2012 include the accounts of the Company and its wholly-owned subsidiary. The financial statements were authorized for issue by the Board of Directors on September 26, 2012. 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 condensed 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'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 condensed 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 29, 2012.

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.

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:

3. Significant accounting policies – continued

(a) Consolidation
The Company has consolidated the assets, liabilities, revenues and expenses of the subsidiary after the elimination of intercompany transactions and balances. These condensed consolidated financial statements include the accounts of the Company, and its wholly owned subsidiary, California Nanotechnologies Inc.

(b) Basis of measurement
These condensed consolidated financial statements have been prepared on a going concern basis, using historical cost convention.

(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) Equipment
Equipment is carried at deemed cost (historical cost less accumulated amortization). Amortization is provided using the straight line method over 7 years which is intended to amortize the cost of assets over their estimated useful lives. 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.

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 is recognized net within other (income) expense in the statement of comprehensive loss. Amortization methods, useful lives and residual values are reviewed at the end of each reporting period and adjusted if appropriate. No revisions to estimates were made in the periods ended August 31, 2012 or August 31, 2011.

(f) 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.

3. Significant accounting policies – continued

(g) Investments
Investments classified as available-for-sale are reported at fair value with unrealized gains or losses excluded from earnings and reported as other comprehensive income or loss. Investments classified as "at fair value through profit or loss" are reported at fair value with unrealized gains or losses included in earnings.

(h) Impairment of non-financial assets
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) 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 condensed 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, 2012 and February 29, 2012 there were no provisions recognized in the condensed consolidated financial statements.

(j) Income taxes
Income tax expense for the period consists of current and deferred tax. Income tax is recognized in the condensed consolidated statement of comprehensive loss, except to the extent that it relates to a business combination or items recognized in other comprehensive loss or directly in equity.

3. Significant accounting policies – continued

(j) Income taxes-continued
Taxable income differs from income as reported in the condensed consolidated statement of 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 condensed 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 income tax asset is realized or the deferred income tax liability is settled.

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

(k) Foreign exchange
These condensed 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.

(l) Significant accounting estimates and assumptions
The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period.

Accounts receivable are stated after evaluation as to their collectability and an appropriate allowance for doubtful accounts is provided where considered necessary. Income tax rates expected to apply when the deferred income tax liabilities or assets are to be settled or realized and the related valuation allowance are based on estimates and assumptions. Factors used to estimate share based compensation are based on management's assumptions at the time the related options were granted. The condensed consolidated financial statements also include estimates of the useful economic life of equipment and deferred development and intangible asset expenditures. Due to varying assumptions required to be made with regards to future recoverability of these assets, the amortization recorded by management based on their best estimate in this regard may be significantly different from those determined based on future operational results.

The estimated fair value of financial assets and liabilities, by their very nature, are subject to measurement uncertainty.

3. Significant accounting policies – continued

(l) Significant accounting estimates and assumptions- continued

The effect on the condensed consolidated financial statements, resulting from changes in estimates, if any, will be reflected in the period a determination is made that the change in estimate is warranted. The effect on the condensed consolidated financial statements for changes in estimates, in future periods, could be significant.

(m) Share-based compensation plan

The Company accounts for all share options granted to employees, officers, directors and consultants using the fair value method of accounting for share based compensation expense. Under this method, the associated compensation expense is charged to earnings 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.

(n) 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.

(o) 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.

(p) 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.

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 income. Realized gains and losses are recognized in income when the investments are actually disposed of.

3. Significant accounting policies – continued

(p) Financial instruments - continued

The Company's condensed consolidated financial statements include a Statement of Comprehensive Loss. Accordingly, cumulative changes in OCI are included in a Statement of Changes in Equity.

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 and investments of the Company are measured at Level 1.

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.

(q) Capital Disclosures

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

(r) Recent accounting pronouncements

In November 2009, the International Accounting Standards Board ("IASB") published IFRS 9, "Financial Instruments," which covers the classification and measurement of financial assets as part of its project to replace IAS 39, "Financial Instruments: Recognition and Measurement." In October 2010, the requirements for classifying and measuring financial liabilities were added to IFRS 9. Under this guidance, entities have the option to recognize financial liabilities "at fair value through profit or loss". If this option is elected, entities would be required to reverse the portion of the fair value change due to own credit risk out of profit or loss and recognize the change in other comprehensive income. IFRS 9 is effective for the Company on March 1, 2013. Early adoption is permitted and the standard is required to be applied retrospectively. There will be no significant impact to the Company upon implementation of the issued standard.

3. Significant accounting policies – continued

(r) Recent accounting pronouncements - continued

IFRS 10, "Consolidated Financial Statements" 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" 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" 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 International Reporting Standard 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." The principal change resulting from the amendments to IAS 1 is a requirement to group together items within OCI that may be reclassified to the statement of income. The amendments also reaffirm existing requirements that items in OCI 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 OCI that may be reclassified to the statement of income are already grouped together.

IFRS 12, "Disclosure of interest in other entities" 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.

3. Significant accounting policies – continued

(r) Recent accounting pronouncements - continued

IAS 27 replaced the existing IAS 27 ''Consolidated and Separate Financial Statements''. IAS 27 contains accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. IAS 27 requires an entity preparing separate financial statements to account for those investments at cost or in accordance with IFRS 9 Financial Instruments. IAS 27 is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted. The Company is currently assessing the impact of this standard.

IAS 28 was amended in 2011 which prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. IAS 28 is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted. The Company is currently assessing the impact of this standard.

4. Advances from related parties

Advances from related parties are from an entity related through common control. The advances bear interest at 5% per annum and are due upon demand. 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 $76,190 (August 31, 2011 – $29,276). The transactions are considered to be in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

	August 31, 2012	February 29, 2012
Advances from related parties	**$ 943,501**	$ 764,500

5. Equipment

	August 31, 2012			February 29, 2012	
	Additions	**Cost**	**Accumulated Amortization**	Cost	Accumulated Amortization
Equipment	**$ 5,770**	**$ 908,269**	**$ 706,447**	$ 902,499	$ 642,079
Net book value		**$ 201,822**		$ 260,420	

6. Intangible assets

	August 31, 2012			February 29, 2012	
	Additions	**Cost**	**Accumulated Amortization**	Cost	Accumulated Amortization
Trade Secrets	**$ -**	**$ 100,000**	**$ 43,890**	$ 100,000	$ 40,557
Use of operating rights	**-**	**50,000**	**21,944**	50,000	20,277
Customer list	**-**	**27,000**	**11,850**	27,000	10,950
Customer contract	**4,350**	**27,350**	**10,165**	23,000	9,326
	4,350	**204,350**	**87,849**	200,000	81,110
Net book value		**$ 116,501**		$ 118,890	

7. Investment

At August 31, 2012, 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 ("SRL Nano"), 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 the lower of cost or fair market value.

On July 31, 2012, a complaint was filed by the Company with the Superior Court of the State of California for the County of Los Angeles seeking compensation for damages from SRL Nano. At October 5, 2012, impairment, if any, cannot be reasonably estimated.

	Carrying Amount
Investment at February 29, 2012	**$ 250,000**
Investment at August 31, 2012	**$ 250,000**

8. Related party transactions

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

9. Compensation of Key Management Personnel

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

	August 31, 2012	August 31, 2011
Remuneration	**$ 43,502**	$ 34,127

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, March 1, 2011	23,195,000	$ 2,169,044
Issued under private placement	2,625,000	217,104
Total issued and outstanding, February 29, 2011	**25,820,000**	**2,386,148**
Total issued and outstanding, August 31, 2012	**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, March 1, 2011	1,190,000	$ 0.25
Granted	1,145,000	0.10
Expired	(945,000)	0.25
Balance, February 28, 2011	**1,390,000**	**$ 0.12**
Granted	**200,000**	**0.10**
Expired	**(120,000)**	**0.26**
Balance, August 31, 2012	**1,470,000**	**$ 0.11**

10. Share capital - continued

During the period ended August 31, 2012, the Company recorded $18,510 in share-based compensation expense (August 31, 2011 - $4,000). 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 (%)	150.9
Dividend per share	-
Forfeiture rate (%)	7.4

The following tables summarize information about stock options outstanding at August 31, 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	**1,420,000**	**3.9**	**$ 0.10**	**290,000**	**$ 0.12**
$ 0.21 - 0.30	**50,000**	**0.1**	**$ 0.27**	**150,000**	**$ 0.25**

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	4.4	$ 0.11	75,000	$ 0.19
$ 0.21 - 0.30	150,000	0.5	$ 0.25	150,000	$ 0.25
$ 0.30 - 0.45	20,000	0.2	$ 0.33	20,000	$ 0.33

11. Earnings 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.

1,470,000 (August 31, 2011 – 1,835,000) options were excluded in calculating the weighted-average number of diluted common shares outstanding for the period ended August 31, 2012, 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.

12. Seasonality

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

13. Contributed surplus

	August 31, 2012	February 29, 2012
Balance, beginning of period	**$ 112,436**	$ 91,486
Share based compensation	**18,510**	20,950
Balance, end of period	**$ 130,946**	$ 112,436

14. 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, 2012		February 29, 2012	
	Carrying Value	Fair Value	Carrying Value	Fair Value
At fair value through profit or loss				
Cash	$ 4,626	$ 4,626	$ 26,967	$ 26,967
Loans and receivables				
Accounts receivable	65,579	65,579	12,262	12,262
Available for sale				
Investment	250,000	250,000	250,000	250,000
Other liabilities				
Accounts payable and accrued liabilities	59,504	59,504	67,892	67,892
Advances from related parties	943,501	943,501	764,500	764,500

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

	Total	**Level 1**	**Level 2**	**Level 3**
Assets				
Cash	$ 4,626	$ 4,626	-	-
Investment	250,000	250,000	-	-

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

14. Financial instruments - continued

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, 2012, the Company had a working capital deficiency of $921,263 (February 29, 2012 – $790,149).

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, 2012, 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 August 31, 2012	USD February 29, 2012
Cash	**$ 307**	$ 24,557
Accounts Payable	**18,710**	34,152

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	**$ 1,840**
U.S. Dollar Exchange Rate – 10% decrease	**(1,840)**

Other Price Risk

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

14. Financial instruments - continued

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, 2012, the Company was engaged in contracts for products with three (August 31, 2011 – two) customers in excess of 10% of revenue, which accounted for $136,695 (August 31, 2011 - $53,691) or 69% (August 31, 2011 – 60%) 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
$ 65,579	$ 39,044	$ 2,220	$ -	$ -	$ 24,315

15. 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, 2012.