California Nanotechnologies Corp.

Condensed Consolidated Financial Statements

For the interim three month period ended May 31, 2015

(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 May 31, 2015.

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 May 31, 2015 and the interim condensed consolidated statements of loss, comprehensive loss, changes in equity and cash flows for the nine 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 "Christopher T. Melnyk"	*signed "Andrew S. Bengis"*
Christopher T. Melnyk	Andrew S. Bengis
CEO	CFO
July 30, 2015	

California Nanotechnologies Corp.
Condensed Consolidated Statements of Financial Position
United States Dollars

As at	Note	May 31, 2015	February 28, 2015
		(unaudited)	
ASSETS			
Current assets			
Cash		**$ 129,778**	$ 185,089
Accounts receivable	**13**	**44,494**	46,547
Inventory	**4**	**4,594**	-
Prepaid expenses and deposits		**6,539**	13,542
Total current assets		**185,405**	245,178
Equipment	**6**	**73,137**	80,375
Intangible assets	**7**	**75,557**	78,890
Total assets		**$ 334,099**	$ 404,443
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		**$ 81,782**	$ 90,390
Income taxes payable		**1,600**	800
Finance lease obligation		**707**	691
Advances from related parties	**5**	**1,030,312**	1,031,326
Share purchase warrants	**10(b)**	**2,571**	2,477
Total current liabilities		**1,116,972**	1,125,684
Finance lease obligation – long-term		**3,101**	3,283
Total liabilities		**1,120,073**	1,128,967
Shareholders' equity			
Share capital	**10**	**2,889,969**	2,889,969
Contributed surplus	**12**	**214,217**	207,177
Deficit		**(3,890,160)**	(3,821,670)
Total shareholders' equity		**(785,974)**	(724,524)
Total liabilities and shareholders' equity		**$ 334,099**	$ 404,443

"signed"Roger Dent
Director

"signed" Christopher Melnyk
Director

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

For the three month period ended May 31	Note	2015	2014
Revenue		**$ 95,913**	$ 159,198
Cost of goods sold		**21,368**	7,681
Gross margin		**74,545**	151,517
Expenses			
Advertising and promotion		**10,739**	14,082
Amortization and depreciation - equipment and intangible assets	**6,7**	**10,571**	16,001
Consulting		**-**	9,832
Office		**7,809**	8,648
Professional fees		**10,141**	9,012
Repairs and maintenance		**-**	3,472
Research		**1,188**	4,396
Salaries, wages and benefits		**75,462**	84,204
Supplies		**6,447**	19,842
Travel and entertainment		**7,155**	4,084
Share-based compensation	**10(c), 12**	**7,040**	8,270
Total expenses		**136,552**	181,843
Earnings (loss) from operations		**(62,007)**	(30,326)
Foreign exchange gain (loss)		**(322)**	4,162
Interest income (expense)		**(5,267)**	(6,018)
Unrealized (loss) gain on share purchase warrants	**10(b)**	**(94)**	(21,236)
Earnings (loss) before income taxes		**(67,690)**	(53,418)
Provision for income taxes		**800**	800
Net earnings (loss) and comprehensive earnings (loss)		**$ (68,490)**	$ (54,218)
Earnings (loss) per share - basic	**11**	**$ (0.01)**	$ (0.01)
- diluted	**11**	**(0.01)**	(0.01)
Weighted average shares outstanding - basic	**11**	**31,230,296**	28,888,428
- diluted	**11**	**31,525,240**	29,908,469

California Nanotechnologies Corp.
Condensed Consolidated Statements of Changes in Equity
United States Dollars
(Unaudited – prepared by management)

	Note	Share capital	Contributed surplus	Deficit	Total
Balance at February 28, 2015		$ 2,889,969	$ 207,177	$ (3,821,670)	$ (724,524)
Share-based compensation	**10**	**-**	**7,040**	**-**	**7,040**
Net earnings (loss) and comprehensive earnings (loss)		**-**	**-**	**(68,490)**	**(68,490)**
Balance at May 31, 2015		**$ 2,889,969**	**$ 214,217**	**$ (3,890,160)**	**$ (785,974)**

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

For the three month period ended May 31	Note	2015	2014
Cash provided by (used for) the following activities			
Operating activities			
Net earnings (loss)		**$ (68,490)**	$ (54,218)
Amortization and depreciation - equipment and intangible assets	**6,7**	**10,571**	16,001
Unrealized loss on share purchase warrants	**10(b)**	**94**	21,236
Share-based compensation	**12**	**7,040**	8,270
		(50,785)	(8,711)
Changes in working capital accounts			
Accounts receivable		**2,053**	(35,486)
Inventory		**(4,594)**	-
Prepaid expenses and deposits		**7,003**	(6,168)
Income taxes payable		**800**	800
Accounts payable and accrued liabilities		**(8,608)**	(20,366)
Net cash used for operating activities		**(54,131)**	(69,931)
Financing activities			
Payments to related parties		**(13,053)**	(86,295)
Advances from related parties	**5**	**12,040**	56,266
Payments to capital lease obligation	**9**	**(167)**	-
Share issue costs	**10**	**-**	(32,981)
Issue of common shares	**10**	**-**	665,351
Net cash provided by (used for) financing activities		**(1,180)**	602,341
Net cash provided by investing activities		-	-
Increase (decrease) in cash resources		**(55,311)**	532,410
Cash, beginning of period		**185,089**	4,234
Cash, end of period		**$ 129,778**	$ 536,644
Supplemental cash flow information:			
Income taxes paid		**$ -**	$ 800
Interest expense paid		**3,414**	-

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 consolidated financial statements of the Company for the year ended February 28, 2015 include the accounts of the Company and its wholly-owned subsidiaries. Its head office, research and development, and production operations are located at 17220 Edwards Road, Cerritos, California, U.S.A, 90703. A corporate, registered office is located at #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. The Company's target markets are Aerospace, Defense, Automotive, Medical and Sports and Recreation. Since the most significant portion of the Company's operations is located in the United States and its functional currency is denominated in United States dollars, these consolidated financial statements are presented in United States dollars. The Company is listed for trading on the Toronto Stock Exchange Venture under the symbol OML. These consolidated financial statements were authorized for issue in accordance with a resolution by the Board of Directors on July 30, 2015.

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 period of $68,490 (2014 - $54,218) and negative cash flows from operating activities of $54,131 (2014 – $69,931). In addition, the Company has an accumulated deficit of $3,890,160 (2014 - $3,547,817). 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, 2015.

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 consolidated financial statements. The impact of these standards and interpretations on the Company is still to be assessed.

3. Significant accounting policies – continued

The preparation of condensed consolidated financial statements requires management to make estimates and judgments that affect the amounts reported in the condensed 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 condensed 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 consolidated financial statements have been prepared on a going concern basis, using the historical cost convention except for share-based payments and 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 investments is recognized on an accrual basis.

(d) Cash
Cash includes balances with banks. 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 historical cost less accumulated depreciation. Depreciation is provided using the straight line method and is calculated over the estimated useful life of the assets, which has been estimated as seven years for nanotechnology equipment 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 equipment on an on-going basis considering changes in circumstances.

3. Significant accounting policies – continued

(g) 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 condensed consolidated statements of loss and comprehensive loss. Depreciation methods, useful lives and residual values are reviewed at the end of each reporting period and adjusted if appropriate.

(h) Intangible assets

Intangible assets are comprised 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 estimated useful life of 15 years and are assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization method and amortization period of an intangible asset is reviewed at least annually.

(i) 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.

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 February 28, 2015 and February 28, 2014 there were no provisions recognized in the condensed consolidated financial statements.

(k) Income taxes

Income tax expense for the period consists of current and deferred tax. Deferred tax is recognized in the condensed 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 condensed consolidated statements 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 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 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.

3. Significant accounting policies – continued

(m) 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.

(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. Measurement in subsequent periods depends on whether the financial instrument has been classified as "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 classified as "fair value through profit or loss" are measured at fair value with changes in those fair values recognized in net loss. Financial assets, classified as "loans and receivables" and financial liabilities classified as "other financial liabilities" are measured at amortized cost using the effective interest method of amortization.

3. Significant accounting policies – continued

(p) Financial instruments - continued

Cash and share purchase warrants are designated as "fair value through profit or loss". Accounts receivable are designated as "loans and receivables". Accounts payable and accrued liabilities, and advances from related parties are designated as "other liabilities".

Financial instruments measured at fair value on the consolidated 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.

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. 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 loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized.

(q) Significant accounting estimates and judgments

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

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

Judgments

Determining 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.

3. Significant accounting policies – continued

(q) Significant accounting estimates and judgments - continued

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

Depreciation and amortization
The condensed consolidated financial statements 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 is based on their best estimate in this regard and may be significantly different from those determined based on future operational results.

3. Significant accounting policies – continued

(r) New accounting policies

On March 1, 2014, the Company adopted the following new standards and amendments that became effective for annual periods on or after March 1, 2014:

3. IAS 36, "Impairment of Assets" was amended to reduce the circumstances in which the recoverable amount of CGUs is required to be disclosed and clarifies the disclosures required when an impairment loss has been recognized or reversed in the period. The adoption of this amendment had no material impact on the Company's consolidated financial statements.

4. IFRS Interpretations Committee ("IFRIC") 21 "Levies" clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified in the relevant legislation, occurs. The adoption of this standard had no material impact on the Company's consolidated financial statements.

5. IFRS 2, "Share-based payment" - Annual Improvements to IFRSs 2010–2012 Cycle" was issued in December 2013. The definitions of 'vesting conditions' and 'market condition' were amended and the definitions of 'performance condition' and 'service condition' were added. An entity is required to prospectively apply that amendment to share-based payment transactions for which the grant date is on or after July 1, 2014. The adoption of this amendment had no material impact on the Company's consolidated financial statements.

6. "Annual Improvements to IFRSs 2010–2012 Cycle" was issued in December 2013. The amendments to IFRS 8 require that an entity disclose the judgments made by management in applying the aggregation criteria to allow two or more operating segments to be aggregated. The amendments affect disclosure and are effective for annual periods beginning on or after July 1, 2014. The adoption of this amendment had no material impact on the Company's consolidated financial statements.

(s) Future accounting policies

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective and assessed that the following pronouncements are applicable to the Company:

IFRS 9, "Financial Instruments" - On November 12, 2009, the IASB issued IFRS 9, "Financial Instruments" ("IFRS 9"), which will replace IAS 39 "Financial Instruments: Recognition and Measurement" ("IAS 39"). The standard was to be effective for annual periods beginning on or after January 1, 2015. In February 2014, the IASB tentatively decided the mandatory effective date of the final IFRS 9 would now be January 1, 2018. IFRS 9 applies to classification and measurement of financial assets as defined in IAS 39. It uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple classification options in IAS 39. The Company has not yet considered the impact of IFRS 9 on its consolidated financial statements.

IFRS 15, "Revenue from contracts with customers" - On May 28, 2014, the IASB issued IFRS 15, "Revenue from contracts with customers". IFRS 15 will replace existing standards and interpretations on revenue recognition. The standard is effective for annual periods beginning on or after January 1, 2017, with early adoption permitted. The standard outlines a single comprehensive model for entities for revenue recognition arising from contracts with customers. The Company has not yet considered the impact of IFRS 15 on its consolidated financial statements.

4. Inventory

The major components of inventory are classified as follows:

	May 31, 2015	February 28, 2015
Finished goods	**$ 4,594**	-

The cost of finished goods inventories recognized as expense and included in cost of goods sold was $7,421 (May 31, 2014 - $nil). There were no recurring inventory write-downs included in cost of goods sold.

5. Related party transactions

Advances from related parties are from a related 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 $3,328 (2014 - $nil) was paid on the advances with accrued interest in the amount of $130,700 (2014 – $128,847). The related party engaged with the Company for revenue of $9,725 (May 31, 2014 – $4,814) and incurred expenses of $2,574 (May 31, 2014 – $608). The transactions are considered to be in the normal course of operations and are initially recognized at their fair value.

	February 28, 2015	February 28, 2014
Advances from related parties	**$ 1,030,312**	$ 1,031,326

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.	USA

6. Equipment

	Nanotechnology equipment	Roof coating equipment	Totals
Cost			
At February 28, 2014	**908,133**	**8,520**	**916,653**
Additions	**63,867**	**-**	**63,867**
At February 28, 2015	**972,000**	**8,520**	**980,520**
Additions	**-**	**-**	**-**
At May 31, 2015	**972,000**	**8,520**	**980,520**
Accumulated depreciation			
At February 28, 2014	843,486	4,703	848,189
Depreciation	49,826	2,130	51,956
At February 28, 2015	893,312	6,833	900,145
Depreciation	**6,528**	**710**	**7,238**
At May 31, 2015	**899,840**	**7,543**	**907,383**
Net book value			
At February 28, 2015	78,688	1,687	80,375
At May 31, 2015	**72,160**	**977**	**73,137**

Nanotechnology equipment includes equipment with a cost of $4,084 and a net book value of $3,987 under finance lease obligation (See note 7). Equipment not in service and not subject to depreciation in the amount of $27,255 (2014 - $nil) is included in nanotechnology equipment.

7. Intangible assets

	Trade secrets	Use of operating rights	Customer list	Customer contract	Totals
Cost					
At February 28, 2014, 2015 and May 31, 2015	**100,000**	**50,000**	**27,000**	**23,000**	**200,000**
Accumulated amortization					
At February 28, 2014	53,890	26,944	14,550	12,393	107,777
Amortization	6,667	3,333	1,800	1,533	13,333
At February 28, 2015	60,557	30,277	16,350	13,926	121,110
Amortization	**1,667**	**833**	**450**	**383**	**3,333**
At May 31, 2015	**62,224**	**31,110**	**16,800**	**14,309**	**124,443**
Net book value					
At February 28, 2015	39,443	19,723	10,650	9,074	78,890
At May 31, 2015	**37,776**	**18,890**	**10,200**	**8,691**	**75,557**

8. Finance lease obligation

Equipment under a finance lease payable in equal month installments of $84 which includes interest implied interest of 8.7%. The lease matures on December 16, 2019 and is secured against the equipment under finance lease with a net book value of $3,841.	**$**	**3,808**
Less: current portion		**(707)**
	$	**3,101**

Interest of $86 (2014 - $nil) related to the finance lease has been recorded as interest expense in the condensed consolidated statements of net loss and comprehensive loss for the period ended May 31, 2015. No finance leases were present in the prior year.

Future minimum lease payments related to obligations under finance lease are as follows:

2015	$	1,011
2016		1,011
2017		1,011
2018		1,011
2019		590
		4,634
Less: implied interest		(826)
		3,808
Less: current portion		(707)
	$	3,101

9. Compensation of key management personnel

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

	May 31, 2015	May 31, 2014
Remuneration	**$ 29,142**	$ 35,003

Key management personnel of the Company include the CEO and CFO. Deferred compensation to the CEO in the amount of $746 is included above at May 31, 2015 (May 31, 2014 - $nil).

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 28, 2014	25,820,000	$ 2,386,148
Issued under private placement	5,290,296	518,108
Issued upon exercise of options	120,000	18,694
Share issuance costs	-	(32,981)
Total issued and outstanding, February 28 and May 31, 2015	**31,230,296**	**$ 2,889,969**

On March 14, 2014, 120,000 options were exercised for total proceeds of $10,827. The fair value of the options exercised was $0.10 per option, resulting in a total charge to share capital of $18,694 and a charge to contributed surplus of $7,867.

On April 9, 2014, Cal Nano completed a private placement of 5,290,296 Units at $0.135 CAD per Unit for total proceeds of $714,190 CAD. Each Unit was comprised of one (1) common share and one-half of one (1) common share purchase warrant exercisable at $0.225 CAD per common share until April 9, 2015. On March 17, 2015, the warrants' expiration date was extended to October 8, 2015. These warrants were valued at $0.0565 CAD per warrant for a total of $149,348 CAD. The ascribed values of the warrants were determined using the Black-Scholes fair value pricing model based on a risk free rate of 1.06%, expected volatility of 167.9% and an expected life of one (1) year. The total costs to complete the private placement were $32,981, which included finder's fees in the aggregate amount of $16,745 CAD to eligible finders who introduced subscribers to the private placement.

Warrants

	Number	Amount
Total issued and outstanding, February 28, 2014	-	$ -
Issuance of warrants	2,645,148	136,416
Unrealized gain on share purchase warrants	-	(133,939)
Total issued and outstanding, February 28, 2015	2,645,148	$ 2,477
Unrealized loss on share purchase warrants	**-**	**94**
Total issued and outstanding, May 31, 2015	**2,645,148**	**$ 2,571**

As the exercise price of the share purchase warrants are fixed in Canadian dollars and the functional currency of the Company is the US dollar, the warrants are considered a derivative, as a variable amount of cash in the Company's functional currency will be received on exercise. At May 31, 2015 the fair value of share purchase warrants issued and outstanding with Canadian dollar exercise prices was $2,571 (2014 - $2,477). The share purchase warrants are re-measured at fair value at each statement of financial position date with the change in fair value recorded in earnings during the period of change. The change in fair value for the period ended May 31, 2015 was $94 (2014 – ($133,939)). The fair value of share purchase warrants is reclassified to equity upon exercise.

10. Share capital - continued

(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** ***(CAD)***
Balance, February 28, 2014	2,300,000	$ 0.08
Granted	475,000	0.11
Forfeited	(50,000)	0.05
Expired	(120,000)	0.10
Balance, February 28, 2015	2,605,000	$ 0.08
Forfeited	**(25,000)**	**0.05**
Balance, May 31, 2015	**2,580,000**	**$ 0.08**

During the period ended May 31, 2015, the Company recorded $7,040 in share-based compensation expense (May 31, 2014 - $8,270). The fair value of the options granted in the current period was estimated using the Black Scholes option-pricing model with the following assumptions:

Risk free interest rate (%)	1-1.6
Expected term (years)	2-5
Expected volatility (%)	149-182
Dividend per share	-
Forfeiture rate (%)	6.1

The following tables summarize information about stock options outstanding at May 31, 2015:

	Options Outstanding			**Options Exercisable**	
Exercise Price	**Number of options**	**Weighted Average of Remaining Contractual Life (years)**	**Weighted Average Exercise Price** ***(CAD)***	**Number of Options**	**Weighted Average Exercise Price** ***(CAD)***
$ 0.05 - 0.20	**2,580,000**	**2.5**	**$ 0.08**	**1,579,996**	**$ 0.09**

The following tables summarize information about stock options outstanding at February 28, 2015:

	Options Outstanding			Options Exercisable	
Exercise Price	Number of options	Weighted Average of Remaining Contractual Life (years)	Weighted Average Exercise Price *(CAD)*	Number of Options	Weighted Average Exercise Price *(CAD)*
$ 0.05 - 0.20	2,605,000	2.8	$ 0.08	1,504,996	$ 0.09

11. Loss per share

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

1,050,000 (February 28, 2015 – 400,000) options were excluded in calculating the weighted-average number of diluted common shares outstanding for the period ended May 31, 2015, because their exercise price was greater than the average common share market price for the period. Outstanding options and warrants were the only potential dilutive instruments.

12. Contributed surplus

	May 31, 2015	February 28, 2015
Balance, beginning of year	**$ 207,177**	$ 168,218
Share-based compensation (11(c))	**7,040**	46,826
Exercise of options	**-**	(7,867)
Balance, end of period	**$ 214,217**	$ 207,177

13. Financial instruments

Financial instruments of the Company consist of cash, accounts receivable, share purchase warrants, accounts payable and accrued liabilities, finance lease obligation and advances from related parties.

	May 31, 2015		February 28, 2015	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
At fair value through profit or loss				
Cash	**$ 129,778**	**$ 129,778**	$ 185,089	$ 185,089
Share purchase warrants	**2,571**	**2,571**	2,477	2,477
Loans and receivables				
Accounts receivable	**44,494**	**44,494**	46,547	46,547
Other liabilities				
Accounts payable and accrued liabilities	**81,782**	**81,782**	90,390	90,390
Finance lease obligation	**3,808**	**3,808**	3,974	3,974
Advances from related parties	**1,030,312**	**1,030,312**	1,031,326	1,031,326

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

	Total	**Level 1**	**Level 2**	**Level 3**
Assets				
Cash	$ 129,778	$ 129,778	$ -	$ -
Share purchase warrants	2,571	-	2,571	-

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

13. Financial instruments - continued

The carrying values of cash, accounts receivable, share purchase warrants, accounts payable and accrued liabilities and finance lease obligation approximate their fair value due to their short-term nature.

The fair value of the Company's advances from related parties approximate their fair values due to the interest rates applied to these instruments, which approximate market interest rates.

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 various risks. The Company manages its exposure to these risks by operating in a manner that minimizes its exposure to the extent practical. The Company does not use off statement of financial position contracts to manage these risks.

Liquidity Risk
The Company defines liquidity risk as the financial risk that the Company will encounter difficulties meeting its obligations associated with financial liabilities. The Company's objective for managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. This risk is mitigated by managing the cash flow by controlling receivables and payables to vendors and related parties. At May 31, 2015, the Company had a working capital deficiency of $931,567 (February 28, 2015 – $880,506).

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.

Foreign currency risk - continued
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. At February 28, 2015, 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, 2015	USD February 28, 2015
Cash	**$ 1,070**	$ 166,185
Accounts Payable	**31,824**	27,069

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	**$ 3,075**
U.S. Dollar Exchange Rate – 10% decrease	**(3,075)**

13. Capital Disclosures - 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 May 31, 2015, the Company was engaged in contracts for products with four (May 31, 2014 – one) customer in excess of 10% of revenue, which accounted for $48,562 (May 31, 2014 - $131,643) or 51% (May 31, 2014 – 83%) 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, 2014 – $nil). 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
$ 44,494	$ 30,511	$ 11,929	$ 2,054	$ -	$ -

14. 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, 2015.