California Nanotechnologies Corp.
(A Development Stage Company)
Consolidated Financial Statements
For the years ended February 28, 2013 and February 29, 2012
(in United States Dollars)

Contents

The consolidated financial statements of California Nanotechnologies Corp. (the "Company") and its subsidiaries are the responsibility of management and have been reviewed and approved by the Board of Directors.

The consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board. The consolidated financial statements include items that are based on best estimates and judgments of the expected effects of current events and transactions. Management has determined such items on a reasonable basis in order to ensure that the consolidated financial statements are presented fairly in all material respects.

The Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have designed disclosure controls and procedures and internal controls over financial reporting, or have caused them to be designed under their supervision, to provide reasonable assurance that material information relating to the Company has been made known to them; and information required to be disclosed in the Company's filings is recorded, processed, summarized and reported within the time periods specified in securities legislation. The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements. The Board of Directors carries out this responsibility principally through its Audit Committee.

The Audit Committee is appointed by the Board of Directors, with a majority of its members being outside directors. The Audit Committee meets periodically with management, as well as with the external auditors, to review the consolidated financial statements, external auditors' report, MD&A, auditing matters and financial reporting issues, to discuss internal controls over the financial reporting process, and to satisfy itself that each party is properly discharging its responsibilities. In addition, the Audit Committee has the duty to review the appropriateness of the accounting policies and significant estimates and judgments underlying the consolidated financial statements as presented by management, and to review and make recommendations to the Board of Directors with respect to the independence and the fees of the external auditors. The Audit Committee reports its findings to the Board of Directors for its consideration when it approves the consolidated financial statements and MD&A for issuance to shareholders.

The consolidated financial statements have been audited by MNP LLP, the external auditors, in accordance with Canadian generally accepted auditing standards on behalf of the shareholders. The external auditors have full and free access to the Audit Committee to discuss their audit and related matters.

signed "David F. Grant"	*signed "Timothy C. Wang"*
David F. Grant	Timothy C. Wang
CEO	CFO

June 27, 2013

To the Shareholders of California Nanotechnologies Corp.:

We have audited the accompanying consolidated financial statements of California Nanotechnologies Corp. and its subsidiaries, which comprise the statement of financial position as at February 28, 2013 and February 29, 2012 and the consolidated statements of loss and comprehensive loss, changes in equity, and cash flows for the years then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

Auditors' Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes assessing the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe the audit evidence obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of California Nanotechnologies Corp. and its subsidiaries as at February 28, 2013 and February 29, 2012, and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards

Emphasis of Matter
Without qualifying our opinion, we draw attention to Note 2 in the financial statements which discusses the Company's ability to continue as a going concern. California Nanotechnologies Corp. has a net and comprehensive loss for the year of $531,811 accumulated losses of $3,191,234 and negative cash flows from operations of $389,786. 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.

MNP LLP
Chartered Accountants

Calgary, Alberta
June 27, 2013

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

As at	Note	February 28, 2013	February 29, 2012
ASSETS			
Current assets			
Cash		**$ 5,235**	$ 26,967
Accounts receivable	**15**	**23,550**	12,262
Prepaid expenses and deposits		**33,583**	3,814
Total current assets		**62,368**	43,043
Equipment	**6**	**139,968**	260,420
Intangible assets	**7**	**105,339**	118,890
Investment	**8**	**250,000**	250,000
Total assets		**$ 557,675**	$ 672,353
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		**$ 62,847**	$ 67,892
Income taxes payable		**-**	800
Advances from related parties	**4**	**1,145,424**	764,500
Total current liabilities		**1,208,271**	833,192
Going concern	**2**		
Shareholders' equity			
Share capital	**11**	**2,386,148**	2,386,148
Contributed surplus	**14**	**154,490**	112,436
Deficit		**(3,191,234)**	(2,659,423)
Total shareholders' equity		**(650,596)**	(160,839)
Total liabilities and shareholders' equity		**$ 557,675**	$ 672,353

"signed"Donald J. Kelly
Director

"signed" David F. Grant
Director

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

California Nanotechnologies Corp
(A Development Stage Company)
Consolidated Statements of Loss and Comprehensive Loss
United States Dollars
For the years ended February 28 and February 29

	Note	2013	2012
Revenue		**$ 261,302**	$ 144,355
Cost of goods sold		**34,966**	-
Gross margin		**226,336**	144,355
Expenses			
Advertising and promotion		**10,624**	10,555
Amortization and depreciation - equipment and intangible assets	**6, 7**	**142,523**	142,261
Impairment	**5, 7**	**4,350**	-
Bad debt	**15**	**15,253**	-
Consulting		**-**	14,532
Office		**28,478**	13,774
Professional fees		**62,308**	48,371
Repairs and maintenance		**4,909**	10,480
Research		**93,473**	59,418
Salaries, wages and benefits		**206,496**	151,074
Supplies		**88,763**	95,013
Travel and entertainment		**5,141**	569
Share-based compensation	**11(c), 14**	**42,054**	20,950
		704,372	566,997
Loss from operations		**(478,036)**	(422,642)
Foreign exchange loss		**(799)**	(4,338)
Interest expense		**(52,087)**	(36,093)
Loss before income taxes		**(530,922)**	(463,073)
Provision for income taxes	**9**	**889**	800
Net loss and comprehensive loss		**$ (531,811)**	$ (463,873)
Loss per share - basic and diluted	**13**	**$ (0.02)**	$ (0.02)
Weighted average shares outstanding – basic and diluted	**13**	**25,820,000**	25,050,533

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

California Nanotechnologies Corp.
(A Development Stage Company)
Consolidated Statements of Equity
United States Dollars
For the years ended February 28 and February 29

	Note	Share capital	Contributed surplus	Deficit	Total
Balance at February 28, 2011		$ 2,169,044	$ 91,486	$ (2,195,550)	$ 64,980
Shares issued upon private placement	11(b)	217,104	-	-	217,104
Share-based compensation	14	-	20,950	-	20,950
Net loss		-	-	(463,873)	(463,873)
Balance at February 29, 2012		**$ 2,386,148**	**$ 112,436**	**$ (2,659,423)**	**$ (160,839)**
Share-based compensation	**14**	**-**	**42,054**	**-**	**42,054**
Net loss		**-**	**-**	**(531,811)**	**(531,811)**
Balance at February 28, 2013		**$ 2,386,148**	**$ 154,490**	**$ (3,191,234)**	**$ (650,596)**

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

California Nanotechnologies Corp.
(A Development Stage Company)
Consolidated Statements of Cash Flows
United States Dollars
For the years ended February 28 and February 29

	Note	2013	2012
Cash provided by (used for) the following activities			
Operating activities			
Net loss		**$ (531,811)**	$ (463,873)
Amortization and depreciation - equipment and intangible assets	**6, 7**	**142,523**	142,261
Bad debt	**15**	**15,253**	-
Impairment	**5, 7**	**4,350**	-
Share-based compensation	**14**	**42,054**	20,950
		(327,631)	(300,662)
Changes in working capital accounts			
Accounts receivable		**(26,541)**	(9,766)
Prepaid expenses and deposits		**(29,769)**	200
Income taxes payable		**(800)**	800
Accounts payable and accrued liabilities		**(5,045)**	5,981
Net cash used for operating activities		**(389,786)**	(303,447)
Financing activities			
Issue of common shares	**11(b)**	**-**	217,104
Payments to related parties		**(75,080)**	(161,931)
Proceeds from related parties	**4**	**456,004**	319,423
Net cash provided by financing activities		**380,924**	374,596
Investing activities			
Purchases of equipment	**6**	**(8,520)**	
Purchases of intangibles	**7**	**(4,350)**	
Purchases of Investment	**8**	**-**	(50,000)
Net cash used for investing activities		**(12,870)**	(50,000)
Increase/(decrease) in cash resources		**(21,732)**	21,149
Cash, beginning of year		**26,967**	5,818
Cash, end of year		**$ 5,235**	$ 26,967

The accompanying notes are an integral part of these 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 consolidated financial statements of the Company for the year ended February 28, 2013 include the accounts of the Company and its wholly-owned subsidiaries. The consolidated financial statements were authorized for issue by the Board of Directors on June 27, 2013. Its head office, research and development, and production operations are located at 17220 Edwards Road, Cerritos, California, U.S.A, 90703. A corporate, registered office is located at #1600, 205 - 5th Avenue S.W., Calgary, Alberta T2P 2V7. Since the date of the reverse takeover, the Company has been devoted to the development of nanocrystalline materials through grain size reduction. The advantages of these materials include improved strength and stability. To date, the Company has not earned significant revenues and is considered to be in the development stage. The Company's target markets are Aerospace, Defense, Automotive, Medical and Sports and Recreation. Since the most significant portion of the Company's operations is located in the United States and its functional currency is denominated in United States dollars, these consolidated financial statements are stated in United States dollars.

2. Going concern

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

The Company has a net loss for the year of $531,811 (2012 - $463,873) and negative cash flows from operating activities of $389,786 (2012 – $303,447). In addition, the Company has an accumulated deficit of $3,191,234 (2012 - $2,659,423). 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 consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The principal accounting policies are set out below.

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. Application of the majority of these standards and interpretations is not expected to have a material effect on the consolidated financial statements in the future.

The preparation of consolidated financial statements requires management to make estimates and judgments that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. The 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 subsidiaries after the elimination of intercompany transactions and balances. These consolidated financial statements include the accounts of the Company, and its wholly owned subsidiaries, California Nanotechnologies Inc and White Roof Solutions, Inc.

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

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

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

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

(f) Equipment
Equipment is carried at deemed cost (historical cost less accumulated amortization). Amortization is provided using the straight line method and is calculated over the estimated useful life of the assets, which has been estimated as seven years for nanotechnology equipment and three years for roof coating equipment. Borrowing costs are capitalized that are directly attributable to the acquisition of equipment. The Company reviews the criteria for capitalization and the useful life of its capital assets on an on-going basis considering changes in circumstances.

When the cost of a part of an item of equipment is significant in relation to the total cost of an item and the items have different useful lives, they are accounted for as separate items (significant components) of equipment. The costs of day-to-day servicing of equipment are recognized in direct operating expenses. Gains and losses on disposal of an item of equipment is determined by comparing the proceeds from disposal with the carrying amount of equipment, and are recognized net within other (income) expense in the consolidated statement of loss and comprehensive loss. Depreciation methods, useful lives and residual values are reviewed at the end of each reporting period and adjusted if appropriate.

3. Significant accounting policies – continued

(g) Intangible assets

Intangible assets are comprised of intellectual property and other intangible assets. Intangible assets consist primarily of customer relationships, trade secrets, use of operating rights and contract intangibles. Intangible assets are recorded at cost less any accumulated amortization and/or impairment losses. Intangible assets are amortized on a straight-line basis over their useful life of 15 years and are assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization method and amortization period of an intangible asset is reviewed at least annually.

(h) Impairment of non-financial assets excluding goodwill

The Company assesses, at the end of each reporting period, whether there is an indication that an asset group may be impaired. If any indication of impairment exists, the Company estimates the recoverable amount of the asset group. External triggering events include, for example, changes in customer or industry dynamics, other technologies and economic declines. Internal triggering events for impairment include lower profitability or planned restructuring. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets, cash generating units ("CGU").

If the carrying amount of the asset, or its respective CGU, exceeds its estimated recoverable amount, the difference is recognized as an impairment charge. The Company's corporate assets, which do not generate separate cash inflows, are allocated to the CGUs on a reasonable basis for impairment testing purposes.

The Company's impairment tests compare the carrying amount of the asset or CGU to its recoverable amount. The recoverable amount is the higher of fair value less costs to sell ("FVLCS") and value in use ("VIU"). FVLCS is the amount obtainable from the sale of an asset or CGU in an arm's length transaction of similar assets or observable market prices, less the costs of disposal. The determination of VIU requires the estimation and discounting of cash flows which involves key assumptions that consider all information available on the respective testing date. Management uses its judgment, considering past and actual performance as well as expected developments in the respective markets and in the overall macro-economic environment and economic trends to model and discount future cash flows.

(i) Goodwill

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

(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.

3. Significant accounting policies – continued

(j) Provisions - continued

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, 2013 and February 29, 2012 there were no provisions recognized in the consolidated financial statements.

(k) Income taxes

Income tax expense for the year consists of current and deferred tax. Deferred tax is recognized in the consolidated statement of loss and comprehensive loss, except to the extent that it relates to a business combination or items recognized in other comprehensive loss (“OCL”) or directly in equity.

Taxable income differs from income as reported in the consolidated statement of loss and comprehensive loss. As a result, current tax is the expected tax due on taxable income less adjustments to prior periods using tax rates enacted, or substantively enacted as at the reporting date in jurisdictions where the Company operates.

In general, deferred taxes are recognized based on temporary differences arising between the tax value of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax liabilities are not recognized and are not accounted for if they arise from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable income. Deferred taxes are calculated on the basis of the tax laws enacted or substantively enacted as at the reporting date and apply to when the related deferred tax asset is realized or the deferred tax liability is settled.

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

(l) Foreign exchange

These consolidated financial statements have been presented in United States (U.S.) dollars, the functional currency of the Company's operations. Monetary assets and liabilities denominated in foreign currencies are translated into U.S. dollars at the foreign exchange rate in effect at the statement of financial position date. Revenue and expense transactions in foreign currencies are translated to the appropriate functional currency at the foreign exchange rate on the date of the transaction with all consequential exchange differences recognized in net loss.

Non-monetary assets that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transactions. All resulting exchange differences from translation of the functional currency into a different reporting currency are recognized as a separate component of other comprehensive loss.

(m) 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.

3. Significant accounting policies – continued

(m) Significant accounting estimates and judgments- continued

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

Judgments

Determining cash generating units ("CGU's")

For the purpose of assessing impairment of tangible and intangible assets, assets are grouped at the lowest level of separately identified cash flows which make up the CGU. Determination of what constitutes a CGU is subject to management judgment. The asset composition of a CGU can directly impact the recoverability of assets included within the CGU. In assessing the recoverability of tangible and intangible assets, each CGU's carrying value is compared to the greater of its fair value less costs to sell and value in use.

Deferred taxes

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable earnings will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable earnings together with future tax planning strategies.

Estimates

Valuation of accounts receivables

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

Business combinations

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

Share-based payments

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

Depreciation and amortization

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

3. Significant accounting policies – continued

(n) Share-based compensation plan
The Company provides equity-settled share-based payments in the form of a share option plan to its employees, officers, directors and consultants. The Company accounts for these share options using the fair value method of accounting for share-based compensation expense. Under this method, the associated compensation expense is charged to net loss with a corresponding increase to contributed surplus less an estimated forfeiture rate over each vesting period (tranches) of the options granted. The forfeiture rate is based on past experience of actual forfeitures. Each tranche is treated as a separate share option grant, and subsequently valued at the start of each tranche's vesting period.

Share-based compensation transactions with non-employees are measured at the fair value of the goods or services recovered. However, if the fair value cannot be estimated reliably, the share-based compensation transaction is measured at the fair value of the equity instruments granted at the date the non-employee provides the goods or services.

(o) Per share amounts
Basic loss per share is calculated using the weighted average number of shares outstanding during the period. The Company follows the treasury stock method for the computation of diluted per share amounts. This method assumes the proceeds from the exercise of dilutive options and warrants are used to purchase common shares at the weighted average market price during the period.

(p) Research and development expenses
Expenses related to research and development activities that do not meet generally accepted criteria for deferral are expensed as incurred, net of related tax credits and government grants. Development expenses that meet generally accepted criteria for deferral, in accordance with the IAS 38, "Intangible Assets", are capitalized, net of related tax credits and government grants, and are amortized against earnings over the estimated benefit period and are tested annually for impairment. Research and development expenses are mainly comprised of salaries and related expenses, material costs as well as fees paid to third party consultants.

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

Financial assets and financial liabilities "at fair value through profit or loss" are measured at fair value with changes in those fair values recognized in net loss. Financial assets "available-for-sale" are measured at fair value, with changes in those fair values recognized in OCL. 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 net loss when the investments are actually disposed of.

3. Significant accounting policies – continued

(q) Financial instruments - continued

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

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

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

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

(r) Capital Disclosures

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

(s) Recent accounting pronouncements

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

3. Significant accounting policies – continued

(s) Recent accounting pronouncements - continued

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

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

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

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

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

4. Related party transactions

Advances from related parties are from an entity related through common control. The advances bear interest at 5% through December 31, 2012 and 2% thereafter per annum and are due upon demand. There are no set terms for repayment and the loan is secured by all the assets of the Company. No interest was paid on the advances with accrued interest in the amount of $102,115 (February 29, 2012 – $50,041). The related party engaged with the Company for revenue of $17,817 and incurred expenses of $2,039. The transactions are considered to be in the normal course of operations and are initially recognized at their fair value.

	February 28, 2013	February 29, 2012
Advances from related parties	**$ 1,145,424**	$ 764,500

Significant subsidiaries:

The table below provides information relative to California Nanotechnologies Corp.'s significant subsidiaries, 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
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

5. Business Combination

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

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

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

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

6. Equipment

	Nanotechnology equipment	Roof coating equipment	Totals
Cost			
At February 28, 2011	902,499	-	902,499
Additions	-	-	-
At February 29, 2012	902,499	-	902,499
Additions from business combination (Note 5)	-	5,770	5,770
Additions	-	2,750	2,750
At February 28, 2013	902,499	8,520	911,019
Accumulated depreciation			
At February 28, 2011	513,151	-	513,151
Depreciation	128,928	-	128,928
At February 29, 2012	642,079	-	642,079
Depreciation	127,109	1,863	128,972
At February 28, 2013	769,188	1,863	771,051
Net book value			
At February 29, 2012	260,420	-	260,420
At February 28, 2013	133,311	6,657	139,968

7. Intangible assets

	Trade secrets	Use of operating rights	Customer list	Customer contract	Goodwill	Totals
Cost						
At February 28, 2011	100,000	50,000	27,000	23,000	-	200,000
At February 29, 2012	100,000	50,000	27,000	23,000	-	200,000
Additions from business combination (Note 5)	-	-	-	-	4,350	4,350
Impairment (Note 5)	-	-	-	-	(4,350)	(4,350)
At February 28, 2013	100,000	50,000	27,000	23,000	-	200,000
Accumulated amortization						
At February 28, 2011	33,890	16,944	9,150	7,793	-	67,777
Amortization	6,667	3,333	1,800	1,533	-	13,333
At February 29, 2012	40,557	20,277	10,950	9,326	-	81,110
Amortization	6,667	3,333	1,800	1,751	-	13,551
At February 28, 2013	47,224	23,610	12,750	11,077	-	94,661
Net book value						
At February 29, 2012	59,443	29,723	16,050	13,674	-	118,890
At February 28, 2013	52,777	26,390	14,250	11,923	-	105,339

8. Investment

As at February 28, 2013, the long-term investment consists of an available-for-sale investment in approximately 2.7% of the common shares, at $0.10 per share, of SRL Nano Corporation, a privately held California company specializing in the use of new patented materials that exhibit high strength at elevated temperatures. As there is no quoted market price for the shares, they have been measured at cost.

At July 31, 2012, a complaint was filed by the Company with the Superior Court of the State of California seeking compensation for damages from SRL Nano. At January 31, 2013, the parties entered into a settlement agreement and mutual release to have the investment sold to a third party for $250,000 with a down payment of $9,000. At the report date, the $9,000 has been received, and the third party has agreed to pay the balance on July 15, 2013.

	Carrying Amount
Investment at February 29, 2012	**$ 250,000**
Investment at February 28, 2013	**$ 250,000**

9. Income Taxes

	February 28, 2013	February 29, 2012
Statutory tax rate	**25.00%**	26.25%
Income taxes recovery at the statutory rate	**$ (132,731)**	$ (121,557)
Share-based compensation	**10,514**	5,499
Other	**4,938**	398
Tax rate differences	**(61,238)**	(56,445)
Change in deferred tax asset not recognized	**179,406**	172,905
	$ 889	$ 800

Principal components of deferred tax are:

Deferred tax asset (liability):	February 28, 2013	February 29, 2012
Unused tax losses carry forward - US (1)	**$ 1,097,857**	$ 994,310
Unused tax losses carry forward – Canada (1)	**165,221**	156,408
Disallowed interest - US	**41,005**	20,691
Deferred tax liability:		
Equipment - US	**(46,947)**	(93,678)
	1,257,137	1,077,731
Deferred tax asset not recognized	**(1,257,137)**	(1,077,731)
	$ -	$ -

(1) Consists of US Federal and State tax losses and States in the approximate amount of $2,815,019 expiring at various dates commencing 2025. Canadian tax losses in the approximate amount of $660,886 expiring at varying dates commencing 2015.

10. Compensation of Key Management Personnel

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

	February 28, 2013	February 29, 2012
Remuneration	**$ 87,503**	$ 59,642

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

11. 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, 2011	23,195,000	$ 2,169,044
Issued under private placement	2,625,000	217,104
Total issued and outstanding, February 29, 2012	**25,820,000**	**2,386,148**
Total issued and outstanding, February 28, 2013	**25,820,000**	**2,386,148**

(c) Options - Directors, Officers, Employees and Consultants

The Company has a stock option plan for directors, officers, employees and consultants. Stock options can be issued up to a maximum number of common shares equal to 10% of the issued and outstanding common shares of the Company. The exercise price of options granted is not less than the market price of the common shares traded and along with the vesting period, is determined by the Board of Directors. Options granted have a term of up to 5 years.

	Number of Options	Weighted Average price *(CDN)*
Balance, February 28, 2011	1,190,000	$ 0.25
Granted	1,145,000	0.10
Expired	(945,000)	0.25
Balance, February 29, 2012	**1,390,000**	**$ 0.12**
Granted	**200,000**	**0.10**
Forfeited	**(250,000)**	**0.10**
Expired	**(195,000)**	**0.24**
Balance, February 28, 2013	**1,145,000**	**$ 0.10**

During the year ended February 28, 2013, the Company recorded $42,054 in share-based compensation expense (February 29, 2012 - $20,950). The fair value of the options granted in the current year 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 (%)	151.5
Dividend per share	-
Forfeiture rate (%)	7.4

11. Share capital - continued

The following tables summarize information about stock options outstanding at February 28, 2013:

	Options Outstanding			**Options Exercisable**	
Exercise Price	**Number of options**	**Weighted Average of Remaining Contractual Life (years)**	**Weighted Average Exercise Price *(CDN)***	**Number of Options**	**Weighted Average Exercise Price *(CDN)***
$ 0.10 - 0.20	**1,145,000**	**3.4**	**$ 0.10**	**414,992**	**$ 0.11**

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

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

12. Segmented information

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

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

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

February 28, 2013	**Nanocrystalline materials**	**Solar coatings**	**Inter-corporate elimination**	**Totals**
Revenues	**$ 174,281**	**$ 87,021**	**$ -**	**$ 261,302**
Goodwill impairment	**-**	**(4,350)**	**-**	**(4,350)**
Net loss	**(520,317)**	**(11,494)**	**-**	**(531,811)**
Assets	**555,635**	**37,091**	**(35,051)**	**557,675**
Liabilities	**1,194,737**	**48,585**	**(35,051)**	**1,208,271**

13. 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.

1,145,000 (February 29, 2012 – 1,390,000) options were excluded in calculating the weighted-average number of diluted common shares outstanding for the year ended February 28, 2013, because their exercise price was greater than the annual average common share market price in the periods. Outstanding options were the only potential dilutive instruments.

14. Contributed surplus

	February 28, 2013	February 29, 2012
Balance, beginning of year	**$ 112,436**	$ 91,486
Share-based compensation (11(c))	**42,054**	20,950
Balance, end of year	**$ 154,490**	$ 112,436

15. Financial instruments

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

	February 28, 2013		February 29, 2012	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
At fair value through profit or loss				
Cash	**$ 5,235**	**$ 5,235**	$ 26,967	$ 26,967
Loans and receivables				
Accounts receivable	**23,550**	**23,550**	12,262	12,262
Available for sale				
Investment	**250,000**	**250,000**	250,000	250,000
Other liabilities				
Accounts payable and accrued liabilities	**62,847**	**62,847**	67,892	67,892
Advances from related parties	**1,145,424**	**1,145,424**	764,500	764,500

15. Financial instruments - continued

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

	Total	Level 1	Level 2	Level 3
Assets				
Cash	$ 5,235	$ 5,235	-	-
Investment	250,000	-	250,000	-

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

As disclosed above, the Company holds various forms of financial instruments. The nature of these instruments and the Company's operations expose the Company to 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, until the Company emerges from the development stage. At February 28, 2013, the Company had a working capital deficiency of $1,145,903 (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 February 28, 2013, the Company had the following balances denominated in Canadian dollars. The balances have been translated into United States currency in accordance with the Company’s foreign exchange accounting policy.

	USD February 28, 2013	USD February 29, 2012
Cash	**$ 602**	$ 321
Accounts Payable	**33,691**	35,638

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	**$ 3,309**
U.S. Dollar Exchange Rate – 10% decrease	**(3,309)**

15. Financial instruments - continued

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.

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 year ended February 28, 2013, the Company was engaged in contracts for products with two (February 29, 2012 – four) customers in excess of 10% of revenue, which accounted for $122,713 (February 29, 2012 - $93,960) or 47% (February 29, 2012 – 65%) of the Company's total revenue. The maximum exposure to credit risk is the carrying value of accounts receivable. An allowance for doubtful accounts was recorded in the amount of $15,253 (2012 – $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
$ 23,550	$ 13,846	$ -	$ -	$ 642	$ 9,062

16. Capital Disclosures

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

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

The Company is not subject to externally imposed capital requirements and the Company's overall strategy with respect to capital risk management remains unchanged from the year ended February 29, 2012.