California Nanotechnologies Corp.

Condensed Consolidated Financial Statements

For the interim six month period ended August 31, 2016

(in United States Dollars)

Contents

UNAUDITED INTERIM FINANCIAL STATEMENTS

In accordance with National Instrument 51-102 released by the Canada Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited condensed consolidated financial statements for the period ended August 31, 2016.

NOTICE TO THE READER OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The interim financial statements of California Nanotechnologies Corp. and the accompanying interim condensed consolidated statements of financial position as at August 31, 2016 and the interim condensed consolidated statements of loss, comprehensive loss, changes in equity and cash flows for the six month period ended are the responsibility of the Company's management.

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

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

signed "David F. Grant"	*signed "Roger Dent"*
David F. Grant	Roger Dent
CEO	Director
October 12, 2016	October 12, 2016

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

As at	Note	August 31, 2016	February 29, 2016
		(unaudited)	
ASSETS			
Current assets			
Cash		**$ 23,382**	$ 108,687
Accounts receivable	**13**	**30,345**	46,860
Inventory	**4**	**2,763**	-
Prepaid expenses and other current assets	**4**	**70,483**	13,717
Total current assets		**126,973**	169,264
Equipment	**6**	**53,397**	57,487
Intangible assets	**7**	**58,890**	65,557
Total assets		**$ 239,260**	$ 292,308
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		**$ 61,914**	$ 96,551
Unearned revenue	**4**	**60,121**	-
Income taxes payable		**2,400**	1,600
Finance lease obligation	**9**	**787**	754
Line of credit	**8**	**19,935**	-
Advances from related parties	**5**	**1,045,522**	1,045,522
Share purchase warrants	**11(b)**	**-**	20,963
Total current liabilities		**1,190,679**	1,165,390
Lease obligation	**9**	**2,127**	2,529
Total liabilities		**1,192,806**	1,167,919
Shareholders' equity			
Share capital	**11**	**2,902,277**	2,889,969
Contributed surplus	**13**	**230,194**	226,469
Deficit		**(4,086,017)**	(3,992,049)
Total shareholders' equity		**(953,546)**	(875,611)
Total liabilities and shareholders' equity		**$ 239,260**	$ 292,308

"signed"David Grant
Director

"signed" Roger Dent
Director

California Nanotechnologies Corp

Condensed Consolidated Statements of Loss and Comprehensive Loss

United States Dollars

(Unaudited – prepared by management)

	Note	**For the six month period ended August 31, 2016**	For the six month period ended August 31, 2015	**For the three month period ended August 31, 2016**	For the three month period ended August 31, 2015
Revenue		**$ 203,467**	$ 186,649	**$ 107,272**	$ 90,736
Cost of goods sold		**56,323**	42,257	**18,504**	20,889
Gross margin		**147,144**	144,392	**88,768**	69,847
Expenses					
Advertising and promotion		**11,365**	8,523	**4,624**	(2,216)
Amortization and depreciation - equipment and intangible assets	**6,7**	**10,757**	19,634	**6,782**	9,063
Consulting		**36,592**	25	**18,880**	25
Office		**12,731**	23,728	**5,262**	15,919
Professional fees		**16,690**	20,469	**6,695**	10,328
Repairs and maintenance		**-**	2,003	**-**	2,003
Research		**13,430**	10,688	**-**	9,500
Salaries, wages and benefits		**122,360**	142,862	**51,816**	67,400
Supplies		**10,930**	12,717	**5,573**	6,270
Travel and entertainment		**5,694**	7,316	**3,843**	161
Share-based compensation	**13**	**8,340**	11,535	**4,019**	4,495
		248,889	259,500	**107,494**	122,948
Income (loss) from operations		**(101,745)**	(115,108)	**(18,726)**	(53,101)
Foreign exchange gain (loss)		**(1,565)**	399	**(83)**	721
Interest income (expense)		**(10,821)**	(10,545)	**(5,534)**	(5,278)
Unrealized gain on share purchase warrants		**20,963**	2,027	**56**	2,121
Loss before income taxes		**(93,168)**	(123,227)	**(24,287)**	(55,537)
Provision for income taxes		**800**	800	**-**	1,600
Net loss and comprehensive loss		**$ (93,968)**	$ (124,027)	**$ (24,287)**	$ (57,137)
Loss per share - basic	**12**	**$ (0.01)**	$ (0.01)	**$ (0.01)**	$ (0.01)
- diluted	**12**	**(0.01)**	(0.01)	**(0.01)**	(0.01)
Weighted average shares outstanding - basic	**11**	**31,430,296**	31,230,296	**31,430,296**	31,230,296
- diluted		**31,430,296**	31,230,296	**31,430,296**	31,230,296

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 29, 2016		$ 2,889,969	$ 226,469	$ (3,992,049)	$ (875,611)
Shares issued upon option exercise	**11(b)**	**12,308**	**(4,615)**	**-**	**7,693**
Share-based compensation	**13**	**-**	**8,340**	**-**	**8,340**
Net loss and comprehensive loss		**-**	**-**	**(93,968)**	**(93,968)**
Balance at August 31, 2016		**$ 2,902,277**	**$ 230,194**	**$ (4,086,017)**	**$ (953,546)**

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

	Note	For the six month period ended August 31, 2016	For the six month period ended August 31, 2015	For the three month period ended August 31, 2016	For the three month period ended August 31, 2015
Cash provided by (used for) the following activities					
Operating activities					
Net loss		**$ (93,968)**	$ (124,027)	**$ (24,287)**	$ (57,137)
Amortization and depreciation - equipment and intangible assets	**6,7**	**10,757**	19,634	**6,782**	9,063
Unrealized (gain) loss on share purchase warrants		**(20,963)**	(2,027)	**(56)**	(2,121)
Share-based compensation	**13**	**8,340**	11,535	**4,019**	4,495
		(95,834)	(94,885)	**(13,542)**	(45,700)
Changes in working capital accounts					
Accounts receivable		**16,515**	33,832	**(8,317)**	31,779
Inventory		**(2,763)**	(4,594)	**(2,763)**	-
Prepaid expenses and other current assets		**(56,766)**	(5,739)	**(51,744)**	(12,742)
Income taxes payable		**800**	800	**-**	1,600
Accounts payable and accrued liabilities		**(34,637)**	(34,642)	**(35,376)**	(26,034)
Unearned revenue		**60,121**	-	**60,121**	-
Net cash used for operating activities		**(112,564)**	(105,228)	**(51,621)**	(51,097)
Financing activities					
Lease obligation		**(369)**	(338)	**(187)**	(171)
Payments to related parties		**-**	(19,151)	**-**	(6,098)
Advances from related parties	**5**	**-**	31,514	**-**	19,474
Proceeds from credit line	**8**	**19,935**	-	**19,935**	-
Issue of common shares	**11(b)**	**7,693**	-	**7,693**	-
Net cash provided by financing activities		**27,259**	12,025	**27,441**	13,205
Investing activities					
Purchase of equipment		**-**	(4,235)	**-**	(4,235)
Net cash used for investing activities		**-**	(4,235)	**-**	(4,235)
Increase (decrease) in cash resources		**(85,305)**	(97,438)	**(24,180)**	(42,127)
Cash, beginning of period		**108,687**	185,089	**47,562**	129,778
Cash, end of period		**$ 23,382**	$ 87,651	**$ 23,382**	$ 87,651

1. Incorporation and operations

Veritek Technologies Inc. was incorporated under the laws of the Province of Alberta on May 19, 2002. On February 1, 2007, the Company changed its name to California Nanotechnologies Corp. (the "Company") in connection with the reverse takeover with California Nanotechnologies Inc. The condensed consolidated financial statements of the Company for the period ended August 31, 2016 include the accounts of the Company and its wholly-owned subsidiaries. The condensed consolidated financial statements were authorized for issue by the Board of Directors on October 12, 2016. 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 condensed consolidated financial statements are presented in United States dollars. The Company is listed for trading on the Toronto Stock Exchange Venture under the symbol CNO and the OTCQX under the symbol CANOF.

2. Going concern

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

The Company has a net loss for the period of 124,027 (2015 - $124,027) and negative cash flows from operating activities of $105,228 (2015 – $105,228). In addition, the Company has an accumulated deficit of $3,945,697 (February 29, 2016 - $3,992,049). 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 condensed consolidated financial statements do not reflect the adjustments or reclassification of assets and liabilities which would be necessary if the Company were unable to continue its operations.

3. Significant accounting policies

These condensed consolidated financial statements have been prepared by management in accordance with IAS 34, Interim Financial Reporting as issued by the International Accounting Standards Board ("IASB"). The principal accounting policies are set out below. These condensed interim consolidated financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the Consolidated Financial Statements and the notes thereto in the Company's Audited Annual Financial Statements for the year ended February 29, 2016.

Any standards and interpretations that have been issued but are not yet effective, and that are available for early application, have not been applied to the Company in these condensed consolidated financial statements. The impact of these standards and interpretations on the Company is still to be assessed.

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:

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 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 condensed 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.

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.

3. Significant accounting policies - continued

(g) Leased assets

Leases in terms of which the Company assumes substantially all of the risks and rewards of ownership are classifies as finance leases and are capitalized at the commencement of the lease term at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Other leases are operating leases and are not recognized in the Company's condensed consolidated statement of financial position.

(h) Intangible assets

Intangible assets are comprised of intellectual property, 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 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 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.

(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 condensed consolidated financial statements when the Company has a material obligation, whether existing or potential, as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If the obligation is determined to be material, then the estimated amount of the provision is determined by discounting the expected future cash outflows. At February 29, 2016 and February 29, 2016 there were no provisions recognized in the condensed consolidated financial statements.

3. Significant accounting policies - continued

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

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

(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 and comprehensive 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.

3. Significant accounting policies - continued

(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. The Company assesses, at the end of each reporting period, whether there is an indication the assets may be impaired. If any indication of impairment exists, the Company estimates the recovery amount of the assets. 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.

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.

3. Significant accounting policies – continued

(p) Financial instruments - continued

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 condensed 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 differ from these estimates under different assumptions and conditions.

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

Judgments

Determining cash generating units ("CGU's")

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

Deferred taxes

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

Estimates

Valuation of accounts receivables

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

3. Significant accounting policies - continued

(q) Significant accounting estimates and judgments - continued

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 Company 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 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 be significantly different from those determined based on future operational results.

(r) New accounting policies

For the six months ended August 31, 2016, the Company did not adopt any new IFRS standards.

(s) Recent accounting pronouncements

In May 2014, the IASB issued IFRS 15 “Revenue from Contracts with Customers”, which replaces International Accounting Standard (“IAS”) 18 “Revenue”, IAS 11 “Construction Contracts”, and related interpretations. The standard is required to be adopted either retrospectively or using a modified transition approach for fiscal years beginning on or after January 1, 2018, with earlier adoption permitted. IFRS 15 will be applied by the Company on March 1, 2018 and the Company is currently evaluating the impact of the standard on its condensed consolidated financial statements.

In July 2014, the IASB completed the final elements of IFRS 9 “Financial Instruments”. The standard supersedes earlier versions of IFRS 9 and completes the IASB’s project to replace IAS 39 “Financial Instruments: Recognition and Measurement”. IFRS 9, as amended, includes a principle-based approach for classification and measurement of financial assets, a single ‘expected loss’ impairment model and a substantially reformed approach to hedge accounting. The standard will come into effect for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. IFRS 9 will be applied on a retrospective basis by the Company on March 1, 2018 and the Company is currently evaluating the impact of the standard on its condensed consolidated financial statements.

In January 2016, the IASB issued IFRS 16 “Leases”, which replaces IAS 17 “Leases”. For lessees applying IFRS 16, a single recognition and measurement model for leases would apply, with required recognition of assets and liabilities for most leases. The standard will come into effect for annual periods beginning on or after January 1, 2019, with earlier adoption permitted if the entity is also applying IFRS 15 “Revenue from Contracts with Customers”. IFRS 16 will be applied by the Company on March 1, 2019 and the Company is currently evaluating the impact of the standard on its condensed consolidated financial statements.

4. Inventory

The major components of inventory are classified as follows:

	August 31, 2016	February 28, 2015
Finished goods	**$ 2,763**	-

The cost of finished goods inventories recognized as expense and included in cost of goods sold was $36,526 (August 31, 2015 - $16,555). There were no recurring inventory write-downs included in cost of goods sold.

In the second quarter of 2016, in support of a large project, the Company made deposits toward the purchase of research equipment in the amount of $52,736. Unearned revenue was received in the amount of $60,121 related to the sale of this inventory in the subsequent period.

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 $10,433 (2015 - $nil) was paid on the advances with accrued interest in the amount of $137,541 (2015 – $141,160). The related party engaged with the Company for revenue of $34,865 (August 31, 2015 – $15,823) and incurred expenses of $36,903 (August 31, 2015 – $2,574). The transactions are considered to be in the normal course of operations and are initially recognized at their fair value.

	August 31, 2016	February 29, 2016
Advances from related parties	**$ 1,045,522**	$ 1,045,522

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

6. Equipment

	Nanotechnology equipment	Roof coating equipment	Totals
Cost			
At February 28, 2015	$ 972,000	$ 8,520	$ 980,520
Disposals	(10,060)	-	(10,060)
At February 29, 2016 and August 31, 2016	**961,940**	**8,520**	**970,460**
Accumulated depreciation			
At February 28, 2015	843,486	4,703	848,189
Disposals	(10,060)	-	(10,060)
Depreciation	21,201	1,687	22,888
At February 29, 2016	904,453	8,520	912,973
Depreciation	**4,090**	**-**	**4,090**
At August 31, 2016	**908,543**	**8,520**	**917,063**
Net book value			
At February 29, 2016	57,487	-	57,487
At August 31, 2016	**$ 53,397**	**$ -**	**$ 53,397**

7. Intangible assets

	Trade secrets	Use of operating rights	Customer list	Customer contract	Totals
Cost					
At February 28, 2015, February 29, 2016 and May 31, 2016	**$ 100,000**	**$ 50,000**	**$ 27,000**	**$ 23,000**	**$ 200,000**
Accumulated amortization					
At February 28, 2015	60,557	30,277	16,350	13,926	121,110
Amortization	6,667	3,333	1,800	1,533	13,333
At February 29, 2016	67,224	33,610	18,150	15,459	134,443
Amortization	3,333	1,667	900	767	13,333
At August 31, 2016	**70,557**	**35,277**	**19,050**	**16,226**	**141,110**
Net book value					
At February 29, 2016	32,776	16,390	8,850	7,541	65,557
At August 31, 2016	**$ 29,443**	**$ 14,723**	**$ 7,950**	**$ 6,774**	**$ 58,890**

8. Line of credit

	August 31, 2016	February 29, 2016
Effective July, 2016, the Company established a commercial advance line of up to $30,000 for operating purposes, bearing interest at 8%, repayable in monthly principal and interest installments. The credit line is personally guaranteed by a director of the Company.	**$ 19,935**	$ -
Less: current portion	**(19,935)**	-
	$ -	$ -

Interest of $251 (2015 - $nil) related to the advance line has been recorded as interest expense in the condensed consolidated statements of net loss and comprehensive loss for the period ended August 31, 2016. No advance line agreement was present in the prior year.

Future principal repayments to the advance line of credit are as follows:

2016	$ 19,934

9. Finance lease obligation

	August 31, 2016	February 29, 2016
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 $3,257 (2015 - $3,403).	**$ 2,914**	$ 3,283
Less: current portion	**(787)**	(754)
	$ 2,127	$ 2,529

Interest of $137 (2015 - $168) 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 August 31, 2016. No finance leases were present in the prior year.

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

2016	$ 1,011
2017	1,011
2018	1,011
2019	337
	3,370
Less: implied interest	(456)
	2,914
Less: current portion	(787)
	$ 2,127

10. Compensation of key management personnel

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

	August 31, 2016	August 31, 2015
Remuneration	**$ 15,881**	$ 53,284

Key management personnel of the Company include the CEO and CFO. For the three month period ended August 31, 2016, the Company did not pay the current Chief Executive Officer. It is management's estimate that the fair value salary would approximate $25,000. Due to the lack of independent evidence with respect to the fair value of these services, this transaction has been recorded at the carrying amount of $nil.

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, 2015 and February 29, 2016	31,230,296	$ 2,889,969
Issued upon exercise of options	**200,000**	**12,308**
Total issued and outstanding, August 31, 2016	**31,430,296**	**$ 2,902,277**

On April 9, 2014, the Company completed a private placement of 5,290,296 Units at $0.135 Canadian Dollars ("CAD") per Unit for total proceeds of $714,190 CAD. Each Unit was comprised of one common share and one-half of one common share purchase warrant exercisable at $0.225 CAD per common share until April 9, 2015. These warrants were valued at $0.0562 CAD per warrant for a total of $148,676 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 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, 2015	2,645,148	$ 2,477
Unrealized loss on share purchase warrants	-	18,486
Total issued and outstanding, February 29, 2016	2,645,148	$ 20,963
Unrealized gain on share purchase warrants	**-**	**(20,963)**
Total issued and outstanding, August 31, 2016	**2,645,148**	**$ -**

On March 17, 2015, the warrants' expiration date was extended to October 8, 2015. Then on October 6, 2015, the TSX Venture Exchange approved a second extension of the expiration date of the share purchase warrants to October 8, 2016. As the exercise price of the share purchase warrants are fixed in Canadian dollars and the functional currency of the Company is the U.S. 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 August 31, 2016, the fair value of share purchase warrants issued and outstanding with Canadian dollar exercise prices was $nil (2015 - $20,963). 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 net loss and comprehensive loss during the period of change. The fair value of share purchase warrants is reclassified to equity upon exercise.

11. 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, 2015	2,605,000	$ 0.08
Granted	300,000	0.09
Forfeited	(199,999)	0.09
Exercised	(125,001)	0.05
Balance, February 29, 2016	2,580,000	$ 0.08
Forfeited	**(1,355,000)**	**0.09**
Exercised	**(200,000)**	**0.05**
Granted	**200,000**	**0.06**
Balance, August 31, 2016	**1,225,000**	**$ 0.07**

During the period ended August 31, 2016, the Company recorded $11,535 in share-based compensation expense (August 31, 2015 - $19,000). 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 (%)	0.5-0.6
Expected term (years)	2-5
Expected volatility (%)	165-175
Dividend per share	-
Forfeiture rate (%)	5.3

The following tables summarize information about stock options outstanding at August 31, 2016:

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 - 0.12	**1,225,000**	**2.2**	**$ 0.07**	**841,662**	**$ 0.08**

The following tables summarize information about stock options outstanding at February 29, 2016:

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	2.1	$ 0.08	1,796,663	$ 0.09

12. 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.

13. Contributed surplus

	August 31, 2016	February 29, 2016
Balance, beginning of year	**$ 226,469**	$ 207,177
Share-based compensation (11(c))	**8,340**	19,292
Exercise of options	**(4,615)**	-
Balance, end of period	**$ 230,194**	$ 226,469

14. Financial instruments

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

	August 31, 2016		February 29, 2016	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
At fair value through profit or loss				
Cash	**$ 23,382**	**$ 23,382**	$ 108,687	$ 108,687
Share purchase warrants	**-**	**-**	20,963	20,963
Loans and receivables				
Accounts receivable	**30,345**	**30,345**	46,860	46,860
Other liabilities				
Accounts payable and accrued liabilities	**61,914**	**61,914**	96,551	96,551
Finance lease obligation	**2,914**	**2,914**	3,283	3,283
Line of credit	**19,935**	**19,935**	-	-
Advances from related parties	**1,045,522**	**1,045,522**	1,045,522	1,045,522

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

	Total	**Level 1**	**Level 2**	**Level 3**
Assets				
Cash	$ 23,382	$ 23,382	-	-

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

The carrying values of cash, accounts receivable, accounts payable and accrued liabilities approximate their fair value due to their short-term nature.

14. Financial instruments – continued

The fair value of the Company's advances from related parties, finance lease obligation and line of credit 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 financial obligations. The Company's objective for managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. This risk is partially mitigated by managing the cash flow through controlling receivables and payables to vendors and related parties. At August 31, 2016, the Company had a working capital deficiency of $1,063,706 (February 29, 2016 – $996,126).

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

The Company manages its exposure to foreign currency fluctuations by maintaining foreign currency bank accounts to facilitate foreign currency payables and planned expenditures. At August 31, 2016, the Company had the following balances denominated in Canadian dollars. The balances have been translated into United States currency in accordance with the Company's foreign exchange accounting policy.

	USD August 31, 2016	USD February 29, 2016
Cash	**$ 912**	$ 2,766
Accounts Payable	**26,332**	29,554

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	**$ 2,542**
U.S. Dollar Exchange Rate – 10% decrease	**(2,542)**

Credit risk
The Company manages credit risk by dealing with financially sound customers, based on an evaluation of the customer's financial condition. For the period ended August 31, 2016, the Company was engaged in contracts with four (August 31, 2015 – two) customers in excess of 10% of revenue, which accounted for $132,946 (August 31, 2015 - $44,187) or 65% (August 31, 2015 – 24%) of the Company's total revenue.

14. Financial instruments – continued

Credit risk-continued

The maximum exposure to credit risk is the carrying value of accounts receivable. Three (February 29, 2016 - three) customers had outstanding balances in excess of 10% of accounts receivable, which accounted for $21,376 (February 29, 2016 - $36,488) or 70% (February 29, 2016 – 81%) of the Company's total accounts receivable balance. No allowance for doubtful accounts was recorded. The table below provides an analysis of our current and past due but not impaired accounts receivables.

	Total	Current	≤ 30 days	> 30 days ≤ 60 days	>60 days ≤ 90 days	> 90 days
August 31, 2016	**$ 30,345**	**$ 21,860**	**$ 6,674**	**$ 240**	**$ 517**	**$ 1,054**
February 29, 2016	46,860	42,096	4,124	640	-	-

15. Capital Disclosures

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

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

The Company is not subject to externally imposed capital requirements and the Company's overall strategy with respect to capital risk management remains unchanged from the year ended February 29, 2016.

16. Subsequent events

On September 29, 2016, the Company applied to the TSX Venture Exchange to further extend the term of 2,645,148 common share purchase warrants that were issued under the Company's private placement of units completed on April 8, 2014 to October 8, 2017.