



California Nanotechnologies Corp.
Condensed Consolidated Financial Statements
For the interim three and six months ended August 31, 2019 and 2018
(in United States Dollars)

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UNAUDITED INTERIM FINANCIAL STATEMENTS

In accordance with National Instrument 51-102 released by the Canada Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited condensed consolidated financial statements for the three and six months ended August 31, 2019.

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, 2019 and the interim condensed consolidated statements of loss, comprehensive loss, changes in equity and cash flows for the three and six months ended August 31, 2019 and 2018 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 "Eric Eyerman"

Eric Eyerman
Director
October 30, 2019

signed "Roger Dent"

Roger Dent
Director
October 30, 2019

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

As at	Note	August 31, 2019 (unaudited)	February 28, 2019 (audited)
ASSETS			
Current assets			
Cash		\$ 11,911	\$ 18,563
Accounts receivable	14	106,767	61,187
Inventory	4	30,732	30,732
Prepaid expenses and other current assets	4	5,008	8,094
Total current assets		154,418	118,576
Equipment	6	562,893	620,299
Intangible assets	7	27,505	34,172
Total assets		\$ 744,816	\$ 773,047
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		\$ 158,249	\$ 141,206
Income taxes payable		800	3,200
Interest payable		59,295	42,107
Finance lease obligation – current portion	9	331	731
Bank indebtedness	8	356,818	362,547
Advances from related parties	5	1,045,522	1,045,522
Total current liabilities		1,621,015	1,595,313
Bank indebtedness	8	294,020	347,854
Total liabilities		1,915,035	1,943,167
Shareholders' equity			
Share capital	11	2,902,277	2,902,277
Contributed surplus	13	300,916	295,896
Deficit		(4,373,412)	(4,368,293)
Total shareholders' equity		(1,170,219)	(1,170,120)
Total liabilities and shareholders' equity		\$ 744,816	\$ 773,047

Going concern

2

“signed” Eric Everman
CEO

“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 months ended August 31, 2019	For the six months ended August 31, 2018	For the three months ended August 31, 2019	For the three months ended August 31, 2018
Revenue		\$ 420,758	\$ 357,719	\$ 290,715	\$ 175,170
Cost of goods sold		151,534	134,112	79,055	51,184
Gross margin		269,224	223,607	211,660	123,986
Expenses					
Advertising and promotion		15,873	9,129	6,543	4,586
Amortization and depreciation - equipment and intangible assets	6,7	64,073	62,658	32,037	31,302
Consulting		5,373	8,711	5,373	7,748
Office		17,439	13,741	7,052	6,164
Professional fees		16,661	23,174	8,263	11,514
Repairs and maintenance		259	553	259	383
Research		2,866	132	173	-
Salaries, wages and benefits		88,313	69,687	51,559	49,884
Supplies		16,577	29,174	8,828	15,439
Travel and entertainment		5,402	3,510	2,975	404
Share-based compensation	13	5,020	7,875	2,270	3,941
		237,856	228,344	125,332	131,365
Income (loss) from operations		31,368	(4,737)	86,328	(7,379)
Foreign exchange loss		(204)	(119)	(49)	(57)
Interest expense		(38,683)	(32,811)	(20,796)	(16,376)
Unrealized gain on share purchase warrants		-	11	-	-
(Loss) income before income taxes		(7,519)	(37,656)	65,483	(23,812)
(Recovery) provision for income taxes		(2,400)	800	-	-
Net (loss) income and comprehensive (loss) income		\$ (5,119)	\$ (38,456)	\$ 65,483	\$ (23,812)
Loss per share - basic	12	\$ (0.01)	\$ (0.01)	\$ -	\$ (0.01)
- diluted	12	(0.01)	(0.01)	-	(0.01)
Weighted average shares outstanding - basic	11	31,430,296	31,430,296	31,430,296	31,430,296
- diluted		31,430,296	31,430,296	31,430,296	31,430,296

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 28, 2018		\$ 2,902,277	\$ 280,961	\$ (4,309,126)	\$ (1,125,888)
Share-based compensation	13	-	7,875	-	7,875
Net loss and comprehensive loss		-	-	(38,456)	(38,456)
Balance at August 31, 2018		\$ 2,902,277	\$ 288,836	\$ (4,347,582)	\$ (1,156,469)

	Note	Share capital	Contributed surplus	Deficit	Total
Balance at February 28, 2019		\$ 2,902,277	\$ 295,896	\$ (4,368,293)	\$ (1,170,120)
Share-based compensation	13	-	5,020	-	5,020
Net loss and comprehensive loss		-	-	(5,119)	(5,119)
Balance at August 31, 2019		\$ 2,902,277	\$ 300,916	\$ (4,373,412)	\$ (1,170,219)

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

	Note	For the six months ended August 31, 2019	For the six months ended August 31, 2018	For the three months ended August 31, 2019	For the three months ended August 31, 2018
Cash provided by (used for) the following activities					
Operating activities					
Net (loss) income		\$ (5,119)	\$ (38,456)	\$ 65,483	\$ (23,812)
Amortization and depreciation - equipment and intangible assets	6,7	64,073	62,658	32,037	31,302
Unrealized gain on share purchase warrants	11(b)	-	(11)	-	-
Share-based compensation	11(c)	5,020	7,875	2,270	3,941
		63,974	32,066	99,790	11,431
Changes in working capital accounts					
Accounts receivable		(45,580)	7,730	(59,251)	37
Inventory		-	7,193	-	5,801
Prepaid expenses and other current assets		3,086	6,136	1,423	3,719
Income taxes payable		-	800	-	-
Accounts payable and accrued liabilities		14,643	(22,911)	4,882	(4,277)
Interest payable		17,188	12,939	9,214	7,653
Net cash provided by operating activities		53,311	43,953	56,058	24,364
Financing activities					
Lease obligation		(400)	(439)	(222)	(222)
Payments to related parties		-	-	(15,000)	-
Payments to bank indebtedness	8	(59,563)	(40,194)	(34,146)	(16,199)
Net cash used for financing activities		(59,963)	(40,633)	(49,388)	(16,421)
Investing activities					
Purchase of equipment		-	(16,892)	-	(14,614)
Net cash used for investing activities		-	(16,892)	-	(14,614)
(Decrease) increase in cash resources		(6,652)	(13,572)	6,670	(6,671)
Cash, beginning of period		18,563	36,192	5,241	29,291
Cash, end of period		\$ 11,911	\$ 22,620	\$ 11,911	\$ 22,620

California Nanotechnologies Corp.
Notes to Condensed Consolidated Financial Statements
United States Dollars
For the three and six months ended August 31, 2019 and 2018

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 three and six months ended August 31, 2019 include the accounts of the Company and its wholly-owned subsidiaries. Its head office, research and development, and production operations are located at 17220 Edwards Road, Cerritos, California, U.S.A, 90703. A corporate, registered office is located at 900 - 517 - 10th Avenue S.W., Calgary, Alberta T2R 0A8. 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 ductility. 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 TSX Venture Exchange under the symbol CNO and in the United States on the OTCQB under the symbol CANOF. These condensed consolidated financial statements were authorized for issue in accordance with a resolution by the Board of Directors on October 30, 2019.

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 and comprehensive income loss for the six months of \$5,119 (2018 – \$38,456). In addition, the Company has an accumulated deficit of \$4,373,412 (February 28, 2019 - \$4,368,293). 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 there from, 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 that could be material.

3. Significant accounting policies

The significant accounting policies of the Company are the same as those applied in the Company's annual audited consolidated financial statements for the years ended February 28, 2019 and 2018 except as noted in note 3(a). These policies have been consistently applied to each of the periods presented, unless otherwise indicated.

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) in effect at March 1, 2019. These condensed consolidated interim financial statements are unaudited and have been prepared in accordance with International Accounting Standards (“IAS”) 34 “Interim Financial Reporting”.

California Nanotechnologies Corp.
Notes to Condensed Consolidated Financial Statements
United States Dollars
For the three and six months ended August 31, 2019 and 2018

3. Significant accounting policies – continued

(a) New accounting policies

IFRS 9 Financial Instruments ("IFRS 9")

On March 1, 2018, the Company retrospectively adopted IFRS 9, as well as consequential amendments to IFRS 7 Financial Instruments: Disclosures using the modified retrospective approach. The standard supersedes earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement. On the adoption date of March 1, 2018, IFRS 9 did not result in any adjustments to the opening consolidated statement of financial position.

The following table summarizes the classification categories for the Company's financial assets and liabilities by financial statement line item under the superseded IAS 39 standard and the newly adopted IFRS 9:

	IAS 39	IAS 9
Financial assets		
Cash	Held for trading	FVTPL
Accounts receivable	Loans and receivables	Amortized cost
Financial liabilities		
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Interest payable	Other financial liabilities	Amortized cost
Bank indebtedness	Other financial liabilities	Amortized cost
Advances from related party	Other financial liabilities	Amortized cost
Share purchase warrants	FVTPL	FVTPL

IFRS 9 also introduces a new model for the measurement of impairment of financial assets based on expected credit losses which replaces the incurred losses impairment model applied under IAS 39. There were no material adjustments to the carrying value of any of the Company's financial instruments following the adoption of IFRS 9.

IFRS 15 Revenue from Contracts with Customers ("IFRS 15")

On March 1, 2018 the Company adopted IFRS 15 using the modified retrospective approach. The adoption of IFRS 15 did not result in any changes in the timing or amount of revenue recognized for the Company's goods and services.

(b) Recent accounting pronouncements

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 was applied by the Company on March 1, 2019 and the Company is currently quantifying the impact of the standard on its consolidated financial statements.

California Nanotechnologies Corp.
Notes to Condensed Consolidated Financial Statements
United States Dollars
For the three and six months ended August 31, 2019 and 2018

4. Inventory

The major components of inventory are classified as follows:

	August 31, 2019	February 28, 2019
Raw materials	\$ 27,951	\$ 27,951
Finished goods	2,781	2,781
	<u>\$ 30,732</u>	<u>\$ 30,732</u>

The cost of finished goods inventories recognized as expense and included in cost of goods sold was \$12,912 (2018 - \$7,577). There were no recurring inventory write-downs included in cost of goods sold.

5. Related party transactions

Advances from related party are from a related entity that owns 19.1% of the Company's shares. The advances bear interest at 2% per annum through December 31, 2018, 2.89% thereafter and are due upon demand. There are no set terms for repayment and the loan is secured by all the assets of the Company. Additional security for the loan has been provided by one of the founders and a current member of the board of directors of the Company. Interest was paid in the amount of \$nil (2018 - \$nil) on the advances with accrued interest in the amount of \$196,700 (2018 - \$163,453). This related entity guaranteed the Company's long-term primary credit facility and engaged with the Company for revenue of \$nil (2018 - \$11,739) and incurred expenses of \$12,912 (2018 - \$14,071). The transactions are considered to be in the normal course of operations.

	August 31, 2019	February 28, 2019
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

California Nanotechnologies Corp.
Notes to Condensed Consolidated Financial Statements
United States Dollars
For the three and six months ended August 31, 2019 and 2018

6. Equipment

	Nanotechnology equipment	Roof coating equipment	Totals
Cost			
At February 28, 2019	1,676,790	8,520	1,685,310
Additions	20,469	-	20,469
At August 31, 2019 and August 31, 2019	\$ 1,697,259	\$ 8,520	\$ 1,705,779
Accumulated depreciation			
At February 28, 2018	\$ 964,286	\$ 8,520	\$ 972,806
Depreciation	112,674	-	112,674
At February 28, 2019	1,076,960	8,520	1,085,480
Depreciation	57,406	-	57,406
At August 31, 2019	1,134,366	8,520	1,142,886
Net book value			
At February 28, 2019	\$ 620,299	-	\$ 620,299
At August 31, 2019	\$ 562,893	\$ -	\$ 562,893

Nanotechnology equipment includes equipment with a cost of \$4,084 (February 28, 2019 - \$4,084) and a net book value of \$1,361 (February 28, 2019 - \$1,653) under finance lease obligation (See note 9).

7. Intangible assets

	Trade secrets	Use of operating rights	Customer list	Customer contract	Patent	Totals
Cost						
At February 28, 2018 and 2019 and May 31, 2019	\$ 100,000	\$ 50,000	\$ 27,000	\$ 23,000	\$ 8,615	\$ 208,615
Accumulated amortization						
At February 28, 2018	\$ 80,557	\$ 40,277	\$ 21,750	\$ 18,526	\$ -	\$ 161,110
Amortization	6,666	3,333	1,800	1,533	-	13,333
At February 28, 2019	\$ 87,224	\$ 43,610	\$ 23,550	\$ 20,059	\$ -	\$ 174,443
Amortization	3,333	1,667	900	767	-	6,667
At May 31, 2019	\$ 90,557	\$ 45,277	\$ 24,450	\$ 20,826	\$ -	\$ 181,110
Net book value						
At February 28, 2019	\$ 12,776	\$ 6,390	\$ 3,450	\$ 2,941	\$ 8,615	\$ 34,172
At May 31, 2019	\$ 9,443	\$ 4,723	\$ 2,550	\$ 2,174	\$ 8,615	\$ 27,505

California Nanotechnologies Corp.
Notes to Condensed Consolidated Financial Statements
United States Dollars
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8. Bank indebtedness

	August 31, 2019	February 28, 2019
Effective September 2016, the Company established a new long-term primary credit facility (the "Credit Agreement") with total credit facilities of up to \$250,000, comprised of a commercial advance line in the amount of \$250,000, bearing interest at the prime rate plus one-half of one percent (0.50%) maturing on January 31, 2020. The Credit Agreement is secured by all the accounts, inventory, equipment, and general intangibles of the Company and guaranteed by a related party (Note 5).	\$ 250,000	\$ 250,000
Effective February 2017, the Company increased the long-term primary credit facility up to \$800,000, adding an equipment advance line in the amount of \$550,000, bearing interest at the prime rate plus one-half of one percent (0.50%) maturing on February 23, 2023, with monthly principal payments of \$10,484 that commenced March 31, 2018 for a period of 60 months.	400,838	460,401
Less: current portion	(356,818)	(362,547)
	\$ 294,020	\$ 347,854

Interest of \$22,680 (2018 - \$21,398) related to the long-term credit facilities has been recorded as interest expense in the condensed consolidated statements of net loss and comprehensive loss for the six months ended August 31, 2019.

Future minimum payments related to the long-term credit facilities are as follows:

2019-20	\$ 376,810
2020-21	125,810
2021-22	125,810
Thereafter	<u>63,341</u>
	691,771
Less: interest	<u>(40,933)</u>
	650,838
Less: current portion	<u>(356,818)</u>
	<u>\$ 294,020</u>

California Nanotechnologies Corp.
Notes to Condensed Consolidated Financial Statements
United States Dollars
For the three and six months ended August 31, 2019 and 2018

9. Finance lease obligation

	August 31, 2019	February 28, 2019
Equipment under a finance lease payable in equal monthly 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 \$1,361 (February 28, 2019 - \$1,653).	\$ 331	\$ 731
Less: current portion	(331)	(731)
	\$ -	\$ -

Interest of \$26 (2018 - \$67) related to the finance lease has been recorded as interest expense in the condensed consolidated statements of net loss and comprehensive loss for the six months ended August 31, 2019. No finance leases were present in the prior year.

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

2019-20	\$ 337
Less: implied interest	(6)
	331
Less: current portion	(331)
	\$ -

10. Compensation of key management personnel

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

	<u>August 31, 2019</u>	<u>August 31, 2018</u>
Remuneration	\$ 47,270	\$ 48,077

Key management personnel of the Company include the CEO, COO and Directors. For the six months ended August 31, 2019, the Company did not pay the current Chief Executive Officer. It is management's estimate that the fair value salary would approximate \$75,000. 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:

	<u>Number</u>	<u>Amount</u>
Total issued and outstanding, February 28, 2018 and 2019, and May 31, 2019	31,430,296	\$ 2,902,277

California Nanotechnologies Corp.
Notes to Condensed Consolidated Financial Statements
United States Dollars
For the three and six months ended August 31, 2019 and 2018

11. Share capital

(b) Issued - continued:

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. 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.

Since April 9, 2014 various extensions of the warrants’ expiration date have been approved by the TSV Venture Exchange with the final extension of the share purchase warrants to April 8, 2018. As the exercise price of the share purchase warrants are fixed in CAD 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 May 31, 2019, the fair value of share purchase warrants issued and outstanding with CAD exercise prices was \$nil (2018 - \$11). 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.

Warrants

	<u>Number</u>	<u>Amount</u>
Total issued and outstanding, February 28, 2018	2,645,148	\$ 69,014
Unrealized gain on share purchase warrants	-	(11)
Expired, April 8, 2018	(2,645,148)	-
Total issued and outstanding, February 28, 2019 and August 31, 2019	-	\$ -

(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.

	<u>Number of Options</u>	<u>Weighted Average price (CAD)</u>
Balance, February 28, 2018	2,275,000	\$ 0.07
Granted	1,235,000	0.05
Expired	(600,000)	0.05
Forfeited	(500,000)	0.07
Balance, February 28, 2019	2,410,000	\$ 0.06
Expired	(100,000)	0.11
Balance, August 31, 2019	2,310,000	\$ 0.06

California Nanotechnologies Corp.
Notes to Condensed Consolidated Financial Statements
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11. Share capital – continued

During the three and six months ended August 31, 2019, the Company recorded \$5,020 in share-based compensation expense (August 31, 2018 - \$7,875). The fair value of the options granted in the three and six months was estimated using the Black Scholes option-pricing model with the following assumptions:

Risk free interest rate (%)	0.99-1.98
Expected term (years)	2-5
Expected volatility (%)	138-201
Dividend per share	-
Forfeiture rate (%)	12.38

The following tables summarize information about stock options outstanding at August 31, 2019:

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	2,310,000	2.9	\$ 0.06	1,144,991	\$ 0.07

The following tables summarize information about stock options outstanding at February 28, 2019:

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	2,410,000	3.5	\$ 0.07	841,662	\$ 0.08

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 and comprehensive loss divided by the weighted-average number of diluted common shares outstanding.

2,310,000 (August 31, 2018 – 2,275,000) options were excluded in calculating the weighted-average number of diluted common shares outstanding for the six months ended August 31, 2019 and 2018, because the Company was in a net loss position and therefore any exercise would be anti-dilutive.

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13. Contributed surplus

	August 31, 2019	February 28, 2019
Balance, beginning of year	\$ 295,896	\$ 280,961
Share-based compensation (11(c))	5,020	14,935
Balance, end of period	\$ 300,916	\$ 295,896

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, 2019		February 28, 2019	
	Carrying Value	Fair Value	Carrying Value	Fair Value
At FVTPL				
Cash	\$ 11,911	\$ 11,911	\$ 18,563	\$ 18,563
At amortized cost				
Accounts receivable	106,767	106,767	61,187	61,187
Accounts payable and accrued liabilities	158,249	158,249	141,206	141,206
Interest payable	59,295	59,295	42,107	42,107
Bank indebtedness	650,838	650,838	710,401	710,401
Advances from related party	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	\$ 11,911	\$ 11,911	-	-

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

The carrying values of accounts receivable, accounts payable and accrued liabilities, interest payable and current portion of bank indebtedness approximate their fair value due to their short-term nature.

The fair value of the Company's long term portion of bank indebtedness and finance lease obligation approximate its fair values due to the interest rates applied to these instruments, which approximate market interest rates. The fair value of the Company's advances from related party approximate their fair values due to the amounts being due on demand.

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 make use of off statement of financial position contracts to manage these risks.

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14. Financial instruments - continued

Liquidity Risk

The Company defines liquidity risk as the financial risk that the Company will encounter difficulties meeting its obligations associated with financial liabilities. The Company's objective for managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. This risk is mitigated by managing the cash flow by controlling receivables and payables to vendors and related parties. At August 31, 2019, the Company had a working capital deficiency of \$1,466,597 (2018 – \$1,472,439) (Note 2).

The following table provides an analysis of the financial liabilities based on the remaining terms of the liabilities as at:

August 31, 2019	≤ 1 year	> 1 year ≤ 3 years	> 3 year ≤ 4 years	> 5 years	Total
Accounts payable and accrued liabilities	\$ 158,249	\$ -	\$ -	\$ -	\$ 158,249
Finance lease obligation	331	-	-	-	331
Bank indebtedness	356,818	231,667	62,353	-	650,838
Total	\$ 515,398	\$ 231,667	\$ 62,353	\$ -	\$ 809,418
 February 28, 2018	 ≤ 1 year	 > 1 year ≤ 3 years	 > 3 year ≤ 4 years	 > 5 years	 Total
Accounts payable and accrued liabilities	\$ 143,606	\$ -	\$ -	\$ -	\$ 143,606
Finance lease obligation	731	-	-	-	731
Bank indebtedness	362,547	225,555	122,299	-	710,401
Total	\$ 506,884	\$ 225,555	\$ 122,299	\$ -	\$ 854,738

Foreign currency risk

A portion of the Company's operations are located outside of the U.S. and, accordingly, the related financial assets and liabilities are subject to fluctuations in exchange rates.

The Company believes its exposure to foreign currency risk to be minimal. At August 31, 2019, the Company had the following balances denominated in CAD. The balances have been translated into United States currency in accordance with the Company's foreign exchange accounting policy.

	USD August 31, 2019	USD February 28, 2019
Cash	\$ 2,401	\$ 61
Accounts Receivable	1,302	2,930
Accounts payable and accrued liabilities	40,709	36,994

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	\$ 3,701
U.S. Dollar Exchange Rate – 10% decrease	(3,701)

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14. Financial instruments - continued

Credit risk

The Company manages credit risk by dealing with financially sound customers, based on an evaluation of the customer's financial condition. For the six months ended August 31, 2019, the Company was engaged in contracts for products with two (August 31, 2018 – three) customers in excess of 10% of revenue, which accounted for \$236,072 (August 31, 2018 - \$199,570) or 56% (August 31, 2018 – 56%) of the Company's total revenue. The maximum exposure to credit risk is the carrying value of accounts receivable and cash. Three (2018 - two) customers had an outstanding balance in excess of 10% of accounts receivable, which accounted for \$89,495 (2018 - \$24,585) or 84% (2018 – 58%) 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, 2019	\$ 106,767	\$ 72,274	\$ 33,427	\$ 1,606	\$ -	\$ -
February 28, 2019	\$ 61,187	\$ 37,977	\$ 19,448	\$ 3,762	\$ -	\$ -

As at August 31, 2019, the average expected credit loss on the Company's accounts receivable was 0% and as a result the provision for expected credit losses is \$nil.

Interest rate risk

The Company's revolving line of credit is subject to floating rates. The floating rate debt is subject to interest rate cash flow risk, as the required cash flows to service the debt will fluctuate as a result of changes in market rates. As at August 31, 2019, the increase or decrease in (loss) income before taxes for each 1% change in interest rates on floating rate debt amounts to approximately \$6,508 (2018 - \$7,598). The related disclosures regarding these debt instruments are included in Note 10 of these condensed consolidated interim financial statements.

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 28, 2019.