



California Nanotechnologies Corp.
Condensed Consolidated Interim Financial Statements
For the six months ended August 31, 2020
(Unaudited, in United States Dollars)

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

As at	Note	August 31, 2020 (unaudited)	February 29, 2020 (audited)
ASSETS			
Current assets			
Cash		\$ 45,518	\$ 41,951
Accounts receivable		37,063	43,602
Inventory	4	27,805	24,725
Prepaid expenses and other current assets		5,695	7,446
Total current assets		116,081	117,724
Equipment	6	448,134	505,487
Intangible assets	7	14,172	20,838
Total assets		\$ 578,387	\$ 644,049
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		\$ 119,628	\$ 124,814
Income taxes payable		800	800
Interest payable		-	-
Bank indebtedness	8	112,707	359,722
Advances from related parties	5	1,348,589	1,119,226
Total current liabilities		1,581,724	1,604,562
PPP Loan		62,600	-
Bank indebtedness	8	181,536	238,550
Total liabilities		1,825,860	1,843,112
Shareholders' equity			
Share capital	11	2,902,277	2,902,277
Contributed surplus	12	328,503	323,042
Deficit		(4,478,253)	(4,424,382)
Total shareholders' equity		(1,247,473)	(1,199,063)
Total liabilities and shareholders' equity		\$ 578,387	\$ 644,049

Going concern

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"signed" Eric Eyerman
CEO

"signed" Roger Dent
Director

California Nanotechnologies Corp
Condensed Consolidated Interim Statements of Loss and Comprehensive Loss
United States Dollars
(Unaudited)

		For the six months ended August 31, 2020	For the six months ended August 31, 2019	For the three months ended August 31, 2020	For the six months ended August 31, 2019
Revenue		\$ 445,305	\$ 420,758	\$ 287,768	\$ 290,715
Cost of goods sold		208,363	151,534	132,972	79,055
Gross margin		236,942	269,224	154,796	211,660
Expenses					
Advertising and promotion		7,969	15,873	1,280	6,543
Amortization and depreciation - equipment and intangible assets	6,7	64,019	64,073	31,983	32,037
Consulting		12,587	5,373	9,146	5,373
Office		35,222	17,439	14,414	7,052
Professional fees		986	16,661	775	8,263
Repairs and maintenance		170	259	170	259
Research		183	2,866	-	173
Salaries, wages and benefits		95,246	88,313	38,903	51,559
Supplies		35,837	16,577	17,248	8,828
Travel and entertainment		2,966	5,402	2,392	2,975
Share-based compensation	10	5,461	5,020	2,125	2,270
Total Expenses		260,646	237,856	118,436	125,332
Income/(Loss) income from operations		(23,704)	31,368	36,360	86,328
Other Income		13	-	-	-
Foreign exchange loss		(315)	(204)	(269)	(49)
Interest expense		(29,865)	(38,683)	(15,726)	(20,796)
Unrealized gain on share purchase warrants		-	-	-	-
Income/(Loss) before income taxes		(53,871)	(7,519)	20,365	65,483
(Recovery) provision for income taxes		-	(2,400)	-	-
Income/(Loss) & comprehensive income/ (loss)		\$ (53,871)	\$ (5,119)	\$ 20,365	\$ 65,483
Loss per share - basic	11	\$ nil	\$ nil	\$ nil	\$ nil
- diluted	11	nil	nil	nil	nil
Weighted average shares outstanding-basic		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 Interim Statements of Changes in Equity
United States Dollars
(Unaudited)

	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	12	-	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)
Balance at February 29, 2020		\$ 2,902,277	\$ 323,042	\$ (4,424,382)	\$ (1,199,063)
Share-based compensation	12	-	5,461	-	5,461
Net loss and comprehensive loss		-	-	(53,871)	(53,871)
Balance at August 31, 2020		\$ 2,902,277	\$ 328,503	\$ (4,478,253)	\$ (1,247,473)

California Nanotechnologies Corp.
Condensed Consolidated Interim Statements of Cash Flows
United States Dollars
(Unaudited)

	Note	For the six months ended August 31, 2020	For the six months ended August 31, 2019	For the three months ended August 31, 2020	For the three months ended August 31, 2019
Cash flows from operating activities					
Net loss for six months		\$ (53,871)	\$ (5,119)	\$ 20,365	\$ 65,483
Amortization and depreciation - equipment and intangible assets	6,7	64,019	64,073	31,983	32,037
Share-based compensation	12	5,461	5,020	2,125	2,270
		15,609	63,974	54,473	99,790
Net changes in non-cash working capital items					
Accounts receivable		6,539	(45,580)	21,190	(59,251)
Inventory		(3,080)	-	(3,080)	-
Prepaid expenses		1,751	3,086	4,144	1,423
Accounts payable and accrued liabilities		(5,186)	14,643	(9,609)	4,882
Income taxes payable		-	-	-	-
Interest payable		-	17,188	(9,467)	9,214
Net cash (used for) from operating activities		15,633	53,311	57,651	56,058
Cash flows from financing activities					
Lease obligation		-	(400)	-	(222)
Proceeds from related parties		250,000	-	-	-
Proceeds (due) to related parties		(20,637)	-	(19,704)	(15,000)
Proceeds from bank indebtedness		62,600	-	-	-
Payments to bank indebtedness		(304,029)	(59,563)	(36,149)	(34,146)
Net cash used for financing activities		(12,066)	(59,963)	(55,853)	(49,388)
Cash flows from investing activities					
Purchase of equipment	6	-	-	-	-
Net cash used for investing activities		-	-	-	-
Increase/(decrease) in cash resources		3,567	(6,652)	1,798	6,670
Cash, beginning of period		41,951	18,563	43,720	5,241
Cash, end of period		\$ 45,518	\$ 11,911	\$ 45,518	\$ 11,911

California Nanotechnologies Corp.
Notes to Condensed Consolidated Interim Financial Statements
United States Dollars
For the three and six months ended August 31, 2020

1. Incorporation and operations

Veritek Technologies Inc. (the “Company”) 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. in connection with the reverse takeover with California Nanotechnologies Inc. The condensed consolidated interim financial statements of the Company for the six months ended August 31, 2020 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 (“U.S.”) dollars, these condensed consolidated interim financial statements are presented in U.S. 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 interim financial statements were authorized for issue in accordance with a resolution by the Board of Directors on October 27, 2020.

2. Going concern

These condensed consolidated interim 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 loss for the six months of \$53,871 (2019 – \$5,119). In addition, the Company has an accumulated deficit of \$4,478,254 (February 29, 2020 - \$4,424,382). 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 interim 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 29, 2020 and 2019 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, 2020. 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 Interim Financial Statements
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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) Lease Recognition: Adoption of IFRS 16

The following accounting policy applies as of March 1, 2019 following the adoption of IFRS 16. Prior to March 1, 2019, the Company continued to apply IAS 17 and related interpretations as disclosed in the audited annual consolidated financial statements as at and for the year-ended February 28, 2019, as permitted by the specific transition provisions of IFRS 16.

The Company may enter into leases in the normal course of business. Lease contracts are typically made for fixed periods and may contain a renewal option, but renewal is not considered reasonably certain. Leases are negotiated on an individual basis and each contain different terms and conditions. The Company does not have any contingent rental or sublease payments, nor any sublease income.

The Company assesses whether a contract contains a lease at the inception of a contract. A lease contract conveys the right to control the use of an identified asset for a period in exchange for consideration. Lease liabilities are recognized with corresponding right-of-use assets for all lease agreements, except for short-term leases with terms of 12 months or less and leases of low value

California Nanotechnologies Corp.
Notes to Condensed Consolidated Interim Financial Statements
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For the three and six months ended August 31, 2020

assets, which are expensed on a straight-line basis over the lease term. Consideration in a contract is allocated to lease and non-lease components on a relative stand-alone value basis. Lease components and any associated non-lease components are accounted for as a single lease component.

b) Lease Recognition: Adoption of IFRS 16-continued

Lease liabilities are initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Company's incremental borrowing rate, unless the rate implicit in the lease is readily determinable. A single incremental borrowing rate is applied to a portfolio of leases with similar characteristics. Lease payments included in the measurement of the lease liability comprise fixed (and in-substance fixed) lease payments, less any lease incentives, variable lease payments that depend on an index or rate, and payments expected under residual value guarantees and payments relating to purchase options and renewal option periods that are reasonably certain to be exercised (or periods subject to termination options that are not reasonably certain to be exercised).

Lease liabilities are subsequently measured at amortized cost using the effective interest method. Lease liabilities are remeasured, with a corresponding adjustment to the related right-of-use assets, when there is a change in variable lease payments arising from a change in an index or rate, or when the Company changes the assessment of whether to exercise renewal or termination options.

Right-of-use assets are measured at cost, comprised of the initial measurement of the corresponding lease liabilities, lease payments made at or before the commencement date and any initial direct costs. They are subsequently depreciated on a straight-line basis and reduced by impairment losses, if any. Right-of-use assets may also be adjusted to reflect the remeasurement of related lease liabilities. The right-of-use asset is depreciated from the commencement date to the earlier of the end of the useful life of the underlying asset or the end of the lease term.

4. Inventory

The major components of inventory are classified as follows:

	August 31, 2020	February 29, 2020
Raw materials	\$ 27,108	\$ 27,951
Finished goods	967	2,781
	<u>\$ 27,805</u>	<u>\$ 30,732</u>

The cost of finished goods inventories recognized as expense and included in cost of goods sold for the six months ended August 31, 2020 was \$38,476 (2019 - \$32,409). There were no recurring inventory write-downs included in cost of goods sold.

California Nanotechnologies Corp.
Notes to Condensed Consolidated Interim Financial Statements
United States Dollars
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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, 2019, 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 (2019 - \$nil) on the advances with accrued interest in the amount of \$230,254 (2019 - \$196,700). This related entity guaranteed the Company's long-term primary credit facility and engaged with the Company for revenue of \$nil (2019 - \$nil) and incurred expenses of \$12,776 (2019 - \$12,912). The transactions are considered to be in the normal course of operations.

	August 31, 2020	February 29, 2020
Advances from related parties	\$ 1,348,589	\$ 1,119,226

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%	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 Interim Financial Statements
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6. Equipment

	Nanotechnology equipment	Roof coating equipment	Totals
Cost			
At February 28, 2019	\$ 1,697,259	\$ 8,520	\$ 1,705,779
Additions	-	-	-
At February 29, 2020 and August 31, 2020	\$ 1,697,259	\$ 8,520	\$ 1,705,779
Accumulated depreciation			
At February 28, 2019	\$ 1,076,960	\$ 8,520	\$ 1,085,480
Depreciation	114,812	-	114,812
At February 28, 2020	1,191,772	8,520	1,200,292
Depreciation	57,353	-	57,353
At August 31, 2020	\$ 1,249,125	\$ 8,520	\$ 1,257,645
Net book value			
At February 29, 2020	\$ 505,487	-	\$ 505,487
At August 31, 2020	\$ 448,134	\$ -	\$ 448,134

Nanotechnology equipment includes equipment with a cost of \$4,084 (February 28, 2020 - \$4,084) and a net book value of \$924 (February 29, 2020 - \$1,507) 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, 2019 and 2020 and August 31, 2020	\$ 100,000	\$ 50,000	\$ 27,000	\$ 23,000	\$ 8,615	\$ 208,615
Accumulated amortization						
At February 28, 2019	\$ 87,224	\$ 43,610	\$ 23,550	\$ 20,059	\$ -	\$ 174,443
Amortization	6,667	3,334	1,800	1,533	-	13,334
At February 28, 2020	\$ 93,891	\$ 46,944	\$ 25,350	\$ 21,592	\$ -	\$ 187,777
Amortization	3,333	1,667	900	766	-	6,666
At August 31, 2020	\$ 97,224	\$ 48,611	\$ 26,250	\$ 22,358	\$ -	\$ 194,443
Net book value						
At February 29, 2020	\$ 6,109	\$ 3,056	\$ 1,650	\$ 1,408	\$ 8,615	\$ 20,838
At August 31, 2020	\$ 2,776	\$ 1,389	\$ 750	\$ 642	\$ 8,615	\$ 14,172

California Nanotechnologies Corp.
Notes to Condensed Consolidated Interim Financial Statements
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8. Bank indebtedness

	August 31, 2020	February 29, 2020
<p>a) 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 September 30, 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).</p>	\$ -	\$ 250,000
<p>b) The Company applied for and received loan proceeds in the amount of \$62,600 (“PPP Funds”) and entered into a loan agreement with Manufacturers Bank pursuant to the Paycheck Protection Program (“PPP”). The PPP was established as part of the Coronavirus Aid, Relief and Economic Security Act (“CARES Act”) in order to enable small businesses to pay employees during the economic slowdown caused by COVID-19 by providing forgivable loans to qualifying businesses for up to 2.5 times their average monthly payroll costs. The amount borrowed by the Company under the PPP is eligible to be forgiven provided that (a) the Company uses the PPP Funds during the 24-week period after receipt thereof, and (b) the PPP Funds are only used to cover payroll costs (including benefits), rent, mortgage interest, and utility costs. The amount of loan forgiveness will be reduced if, among other reasons, the Company does not maintain staffing or payroll levels.</p> <p>Principal and interest payments on any unforgiven portion of the PPP Funds (the “PPP Loan”) will be deferred for six months and will accrue interest at a fixed annual rate of 1%. Additionally, the PPP Loan balance will carry a two-year maturity date. There is no prepayment penalty on the PPP Loan.</p>	62,600	-
<p>c) 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, 2019 for a period of 60 months.</p>	294,243	434,984
<p style="padding-left: 40px;">Less: current portion</p>	(112,707)	(363,853)
	\$ 244,136	\$ 321,131

California Nanotechnologies Corp.
Notes to Condensed Consolidated Interim Financial Statements
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8. Bank indebtedness - continued

Interest of \$8,876 (2019 - \$13,826) 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, 2020.

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

2020-21	\$ 62,905
2021-22	125,810
2022-23	<u>125,810</u>
	314,525
Less: interest	<u>(20,973)</u>
	293,552
Less: current portion	<u>(112,707)</u>
	<u>\$ 180,845</u>

9. Compensation of Key Management Personnel

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

	<u>August 31, 2020</u>	August 31, 2019
Remuneration	\$ 46,154	\$ 47,270
Share-based payments	<u>2,198</u>	<u>8,188</u>
	\$ 48,352	\$ 55,458

Key management personnel of the Company include the CEO and Directors.

10. 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 29, 2020 and 2020, and August 31, 2020	<u>31,430,296</u>	<u>\$ 2,902,277</u>

California Nanotechnologies Corp.
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10. Share capital - continued

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

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

	Number of Options	Weighted Average price (CAD)
Balance, February 28, 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	(150,000)	0.09
Balance, February 29, 2020	2,260,000	\$ 0.06
Granted	560,000	0.06
Expired	(50,000)	0.08
Balance, August 31, 2020	2,770,000	\$ 0.06

During the six months ended August 31, 2020, the Company recorded \$5,461 in share-based compensation expense (2019 - \$5,020). 560,000 stock options were issued in the six months ended August 31, 2020. The weighted fair value of the options granted in the current six months would be estimated using the Black Scholes option-pricing model with the following assumptions:

Risk free interest rate (%)	0.28-1.98
Expected term (years)	2-5
Expected volatility (%)	119-202
Dividend per share	-
Forfeiture rate (%)	12.38

The following tables summarize information about stock options outstanding at August 31, 2020:

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 - 0.14	2,770,000	2.8	\$ 0.06	1,161,660	\$ 0.07	

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10. Share capital - continued

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

The following tables summarize information about stock options outstanding at February 29, 2020:

Exercise Price	Options Outstanding			Options Exercisable		
	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 - 0.14	2,260,000	2.7	\$ 0.06	1,461,667	\$ 0.07	

11. Loss per share

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

2,770,000 (August 31, 2019 – 2,310,000) options were excluded in calculating the weighted-average number of diluted common shares outstanding for the six months ended August 31, 2020 and 2019, because the Company was in a net loss position and therefore any exercise would be anti-dilutive.

12. Contributed surplus

	August 31, 2020	February 29, 2020
Balance, beginning of year	\$ 323,042	\$ 295,896
Share-based compensation (11(c))	5,461	27,146
Balance, end of period	\$ 328,503	\$ 323,042

13. Financial instruments

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

	August 31, 2020		February 29, 2020	
	Carrying Value	Fair Value	Carrying Value	Fair Value
At FVTPL				
Cash	\$ 45,518	\$ 45,518	\$ 41,951	\$ 41,951
At amortized cost				
Accounts receivable	37,063	37,063	43,602	43,602
Accounts payable and accrued liabilities	119,628	119,628	124,814	124,814
Bank indebtedness	356,843	356,843	598,272	598,272
Advances from related party	1,348,589	1,348,589	1,119,226	1,119,226

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13. Financial instruments - continued

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

	Total	Level 1	Level 2	Level 3
Assets				
Cash	\$ 45,518	\$ 45,518	-	-

Fair value represents the price at which a financial instrument could be exchanged in an orderly market, in an arm's length transaction between knowledgeable and willing parties who are under no compulsion to act. The Company classifies the fair value of the financial instruments according to the following hierarchy based on the amount of observable inputs used to value the instrument.

Level 1 Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 Pricing inputs are other than quoted prices in active markets included in level 1. Prices in level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.

Level 3 Valuations in this level are those with inputs for the assets or liabilities that are not based on observable market date.

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, 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 approximates 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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13. 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, 2020, the Company had a working capital deficiency of \$1,465,643 (2019 – \$1,466,5975) (Note 2).

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

August 31, 2020	≤ 1 year	> 1 year ≤ 3 years	> 3 year ≤ 4 years	> 5 years	Total
Accounts payable and accrued liabilities	\$ 119,628	\$ -	\$ -	\$ -	\$ 119,628
Bank Indebtedness	112,707	244,136	-	-	356,843
Advance from related party	1,348,589	-	-	-	1,348,589
Total	\$ 1,580,924	\$ 244,136	\$ -	\$ -	\$ 1,825,060

February 29, 2020	≤ 1 year	> 1 year ≤ 3 years	> 3 year ≤ 4 years	> 5 years	Total
Accounts payable and accrued liabilities	\$ 124,814	\$ -	\$ -	\$ -	\$ 124,814
Bank indebtedness	359,722	238,550	-	-	598,272
Advance from related party	1,119,226	-	-	-	1,119,226
Total	\$ 1,603,762	\$ 238,550	\$ -	\$ -	\$ 1,842,312

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, 2020, the Company had the following balances denominated in CAD. The balances have been translated into U.S. dollars in accordance with the Company's foreign exchange accounting policy.

	U.S. Dollar August 31, 2020	U.S. Dollar February 29, 2020
Cash	\$ 413	\$ 460
Accounts receivable	4,085	2,272
Accounts payable and accrued liabilities	31,428	28,000

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	\$ 2,693
U.S. Dollar Exchange Rate – 10% decrease	(2,693)

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13. 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, 2020, the Company was engaged in contracts for products with three (2019 – two) customers in excess of 10% of revenue, which accounted for \$285,600 (2019 - \$236,072) or 64% (2019 – 55%) of the Company's total revenue. The maximum exposure to credit risk is the carrying value of accounts receivable and cash. Seven (2019 – three) customers had outstanding balances in excess of 10% of accounts receivable, which accounted for \$31,500 (2019 - \$89,459) or 52% (2019 – 85%) of the Company's total accounts receivable balance. 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, 2020	\$ 37,063	\$ 48,020	\$(11,642)	\$ 415	\$ -	\$ 270
February 29, 2020	\$ 43,602	\$ 34,790	\$ 1,897	\$ 3,015	\$ 3,900	\$ -

As at August 31, 2020, 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, 2020, the increase or decrease in (loss) income before taxes for each 1% change in interest rates on floating rate debt amounts to approximately \$3,563 (2019 - \$5,983). The related disclosures regarding these debt instruments are included in Note 8 of these condensed consolidated interim financial statements.

14. Capital Disclosures

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

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

The Company is not subject to externally imposed capital requirements and the Company's overall strategy with respect to capital risk management remains unchanged for the six months ended August 31, 2020.

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15. Subsequent events

In 2020, domestic and international economies face uncertainty related to the impact of the COVID-19 pandemic. As global economies have adjusted to the impact, many companies have seen issues in raw materials availability, interruptions or delays in shipping, vendor supply chain and service provider limitations or delays. Management has continually evaluated the impact on operations, and has worked to mitigate any negative affects to the business. It is not possible to reliably estimate the duration and severity of the consequences of COVID-19, or the impact the event may have on the financial position and results of the company for future periods.