California Nanotechnologies Corp.

Condensed Consolidated Interim Financial Statements

For the nine months ended November 30, 2020

(Unaudited, in United States Dollars)

Contents

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

As at	Note	November 30, 2020 (unaudited)	February 29, 2020 (audited)
ASSETS			
Current assets			
Cash		$ 30,835	$ 41,951
Accounts receivable		49,750	43,602
Inventory	4	15,443	24,725
Prepaid expenses and other current assets		5,615	7,446
Total current assets		101,643	117,724
Equipment	6	419,592	505,487
Intangible assets	7	10,838	20,838
Total assets		$ 532,073	$ 644,049
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		$ 81,883	$ 124,814
Income taxes payable		800	800
Interest payable		885	-
Bank indebtedness	8	114,230	359,722
Advances from related parties	5	1,392,935	1,119,226
Total current liabilities		1,590,734	1,604,562
PPP Loan		62,600	-
Bank indebtedness	8	152,451	238,550
Total liabilities		1,805,784	1,843,112
Shareholders’ equity			
Share capital	10	2,902,277	2,902,277
Contributed surplus	12	331,819	323,042
Deficit		(4,507,807)	(4,424,382)
Total shareholders' equity		(1,273,711)	(1,199,063)
Total liabilities and shareholders' equity		$ 532,073	$ 644,049

Going concern **2**

“signed” Eric Eyerman
CEO

“signed” Roger Dent
Director

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

	Note	**For the nine months ended November 30, 2020**	For the nine months ended November 30, 2019	**For the three months ended November 30, 2020**	For the nine months ended November 30, 2019
Revenue		**$ 646,407**	$ 656,657	**$ 201,102**	$ 235,899
Cost of goods sold		**282,284**	235,194	**73,920**	83,660
Gross margin		**364,123**	421,463	**127,182**	152,239
Expenses					
Advertising and promotion		**14,706**	22,100	**6,737**	6,227
Amortization and depreciation - equipment and intangible assets	**6,7**	**95,895**	96,109	**31,876**	32,036
Consulting		**20,367**	9,567	**7,780**	4,194
Office		**66,385**	28,277	**31,163**	10,838
Professional fees		**4,486**	33,777	**3,499**	17,116
Repairs and maintenance		**170**	259	**-**	-
Research		**183**	2,866	**-**	-
Salaries, wages and benefits		**136,805**	120,284	**41,558**	31,971
Supplies		**51,747**	30,181	**15,910**	13,604
Travel and entertainment		**2,974**	13,098	**8**	7,696
Share-based compensation	**10**	**8,777**	6,387	**3,317**	1,367
Total Expenses		**402,495**	362,905	**141,848**	125,049
Income/(Loss) income from operations		**(38,372)**	58,558	**(14,666)**	27,190
Other Income		**13**	-	**-**	-
Foreign exchange loss		**(810)**	(807)	**(496)**	(603)
Interest expense		**(44,256)**	(54,276)	**(14,392)**	(15,593)
Income/(Loss) before income taxes		**(83,425)**	3,475	**(29,554)**	10,994
(Recovery) provision for income taxes		**-**	(2,400)	**-**	-
Income/(Loss) & comprehensive income/ (loss)		**$ (83,425)**	$ 5,875	**$ (29,554)**	$ 10,994
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	-	6,387	-	6,387
Net loss and comprehensive loss		-	-	5,875	5,875
Balance at November 30, 2019		$ 2,902,277	$ 302,283	$ (4,362,418)	$ (1,157,858)
Balance at February 29, 2020		$ 2,902,277	$ 323,042	$ (4,424,382)	$ (1,199,063)
Share-based compensation	**12**	**-**	**8,777**	**-**	**8,777**
Net loss and comprehensive loss		**-**	**-**	**(83,425)**	**(83,425)**
Balance at November 30, 2020		**$ 2,902,277**	**$ 331,819**	**$ (4,507,807)**	**$ (1,273,711)**

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

	Note	**For the nine months ended November 30, 2020**	For the nine months ended November 30, 2019	**For the three months ended November 30, 2020**	For the three months ended November 30, 2019
Cash flows from operating activities					
Net loss for nine months		**$ (83,425)**	$ (5,875)	**$ (29,554)**	$ 10,994
Amortization and depreciation - equipment and intangible assets	**6,7**	**95,895**	96,109	**31,876**	32,036
Share-based compensation	**12**	**8,777**	6,387	**3,317**	1,367
		21,247	108,371	**5,639**	44,397
Net changes in non-cash working capital items					
Accounts receivable		**(6,148)**	(76,042)	**(12,687)**	(30,462)
Inventory		**9,283**	-	**12,362**	-
Prepaid expenses		**1,831**	1,015	**80**	(2,071)
Accounts payable and accrued liabilities		**(42,931)**	13,145	**(1,246)**	(1,498)
Income tax payable		**-**	-		
Interest payable		**885**	-	**885**	-
Advances from related party		**23,709**	26,792	**7,846**	9,604
Net cash (used for) from operating activities		**7,876**	73,281	**12,879**	19,970
Cash flows from financing activities					
Lease obligation		**-**	(731)	**-**	(331)
Proceeds from related parties		**250,000**	-	**-**	-
Payments to related parties		**-**	-	**-**	-
Proceeds from bank indebtedness		**62,600**	-	**-**	-
Payments to bank indebtedness		**(331,592)**	(76,911)	**(27,562)**	(17,348)
Net cash used for financing activities		**(18,992)**	(77,642)	**(27,562)**	(17,679)
Cash flows from investing activities					
Purchase of equipment	**6**	**-**	-	**-**	-
Net cash used for investing activities		**-**	-	**-**	-
Increase/(decrease) in cash resources		**(11,116)**	(4,361)	**(14,683)**	2,291
Cash, beginning of period		**41,951**	18,563	**45,518**	11,911
Cash, end of period		**$ 30,835**	$ 14,202	**$ 30,835**	$ 14,202

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 nine months ended November 30, 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. After the reverse takeover, the Company was devoted to the development of nanocrystalline materials through grain size reduction. The advantages of these materials include improved strength and ductility. In recent years, the Company has shifted its focus to providing toll services for two advanced and unique technologies, Spark Plasma Sintering and Cryogenic Milling. The Company's target markets are Aerospace, Defense, Nuclear, Biomedical and Thermoelectrics. 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 January 8, 2021.

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 nine months of $83,425 (2019 – $5,875). In addition, the Company has an accumulated deficit of $4,507,807 (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".

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 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:

	November 30, 2020	February 29, 2020
Raw materials	**$ 11,880**	$ 23,758
Finished goods	**3,563**	967
	$ 15,443	$ 24,725

The cost of finished goods inventories recognized as expense and included in cost of goods sold for the nine months ended November 30, 2020 was $42,448 (2019 - $28,278). 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, 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 $238,099 (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 $12,766 (2019 – $12,912). The transactions are considered to be in the normal course of operations.

	November 30, 2020	February 29, 2020
Advances from related parties	**$ 1,392,935**	$ 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

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 November 30, 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	**85,895**	**-**	**85,895**
At November 30, 2020	**$ 1,277,667**	**$ 8,520**	**$ 1,286,187**
Net book value			
At February 29, 2020	$ 505,487	-	$ 505,487
At November 30, 2020	**$ 419,592**	**$ -**	**$ 419,592**

Nanotechnology equipment includes equipment with a cost of $4,084 (February 28, 2020 - $4,084) and a net book value of $632 (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 November 30, 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	**4,999**	**2,500**	**1,350**	**1,150**	**-**	**9,999**
At November 30, 2020	**$ 98,890**	**$ 49444**	**$ 26,700**	**$ 22,741**	**$ -**	**$ 197,776**
Net book value						
At February 29, 2020	$ 6,109	$ 3,056	$ 1,650	$ 1,408	$ 8,615	$ 20,838
At November 30, 2020	**$ 1,110**	**$ 555**	**$ 300**	**$ 258**	**$ 8,615**	**$ 10,838**

8. Bank indebtedness

		November 30, 2020		February 29, 2020
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 $250,000, bearing interest at the prime rate plus one-half of one percent (0.50%) maturing on September 30, 2020. The Credit Agreement is secured by all the accounts, inventory, equipment, and general intangibles of the Company and guaranteed by a related party (Note 5).	**$**	**-**	$	250,000
(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. Principal and interest payments on any unforgiven portion of the PPP Funds (the "PPP Loan") will be deferred for nine 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.		**62,600**		-
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.		**266,681**		434,984
Less: current portion		**(114.230)**		(363,853)`
	$	**215,051**	$	321,131

8. Bank indebtedness - continued

Interest of $12,767 (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 nine months ended November 30, 2020.

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

2020-21	$ 31,452
2021-22	125,810
2022-23	125,810
	283,072
Less: interest	(16,391)
	266,681
Less: current portion	(114,230)
	$ 152,451

9. Compensation of Key Management Personnel

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

	November 30, 2020	November 30, 2019
Remuneration	**$ 79,500**	$ 80,023
Share-based payments	**4,302**	9,108
	$ 83,802	$ 89,131

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:

	Number	**Amount**
Total issued and outstanding, February 29, 2020 and 2020, and November 30, 2020	**31,430,296**	**$ 2,902,277**

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	**(100,000)**	0.08
Balance, November 30, 2020	**2,720,000**	$ 0.06

During the nine months ended November 30, 2020, the Company recorded $8,777 in share-based compensation expense (2019 - $6,387). 560,000 stock options were issued in the nine months ended November 30, 2020. The weighted fair value of the options granted in the current nine 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 November 30, 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	**2,720,000**	**2.6**	**$ 0.06**	**1,161,660**	**$ 0.07**

10. Share capital - continued

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

The following tables summarize information about stock options outstanding at February 29, 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	2,260,000	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.

2,720,000 (November 30, 2019 – 2,310,000) options were excluded in calculating the weighted-average number of diluted common shares outstanding for the nine months ended November 30, 2020 and 2019, because the Company was in a net loss position and therefore any exercise would be anti-dilutive.

12. Contributed surplus

	November 30, 2020	February 29, 2020
Balance, beginning of year	**$ 323,042**	$ 295,896
Share-based compensation (11(c))	**8,777**	27,146
Balance, end of period	**$ 331,819**	$ 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.

	November 30**, 2020**		February 29, 2020	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
At FVTPL				
Cash	**$ 30,835**	**$ 30,835**	$ 41,951	$ 41,951
At amortized cost				
Accounts receivable	**49,750**	**49,750**	43,602	43,602
Accounts payable and accrued liabilities	**81,883**	**81,883**	124,814	124,814
Interest payable	**885**	**885**	-	-
Bank indebtedness	**266,681**	**266,681**	598,272	598,272
Advances from related party	**1,392,935**	**1,392,935**	1,119,226	1,119,226

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	$ 30,835	$ 30,835	-	-

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.

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 November 30, 2020, the Company had a working capital deficiency of $1,489,091 (2019 – $1,449,752) (Note 2).

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

November 30, 2020	**≤ 1 year**	**> 1 year ≤ 3 years**	**> 3 year ≤ 4 years**	**> 5 years**	**Total**
Accounts payable and accrued liabilities	**$ 81,883**	**$ -**	**$ -**	**$ -**	**$ 81,883**
Bank Indebtedness	**114,230**	**152,451**	**-**	**-**	**266,681**
Advance from related party	**1,392,935**	**-**	**-**	**-**	**1,392,935**
Total	**$ 1,589,048**	**$ 152,451**	**$ -**	**$ -**	**$ 1,741,499**

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 November 30, 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 November 30, 2020	U.S. Dollar February 29, 2020
Cash	**$ 392**	$ 460
Accounts receivable	**4,132**	2,272
Accounts payable and accrued liabilities	**849**	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	**$ 368**
U.S. Dollar Exchange Rate – 10% decrease	**(368)**

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 nine months ended November 30, 2020, the Company was engaged in contracts for products with one (2019 – three) customers in excess of 10% of revenue, which accounted for $209,485 (2019 - $377,674) or 32% (2019 – 56%) of the Company's total revenue. The maximum exposure to credit risk is the carrying value of accounts receivable and cash. Five (2019 – two) customers had outstanding balances in excess of 10% of accounts receivable, which accounted for $37,257 (2019 - $99,920) or 82% (2019 74%) 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
November 30, 2020	**$ 45,619**	**$ 34,711**	**$ 10,638**	**$ -**	**$ -**	**$ 270**
February 29, 2020	$ 43,602	$ 34,790	$ 1,897	$ 3,015	$ 3,900	$ -

As at November 30, 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 November 30, 2020, the increase or decrease in (loss) income before taxes for each 1% change in interest rates on floating rate debt amounts to approximately $3,293 (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 nine months ended November 30, 2020.

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.