

*Unaudited Condensed Consolidated Interim Financial Statements of*

# **WAVEFRONT TECHNOLOGY SOLUTIONS INC.**

*Three months ended November 30, 2017 and 2016*

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### **NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS**

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company is disclosing that its auditors have not reviewed the unaudited condensed consolidated interim financial statements for the periods ended November 30, 2017 and 2016.

**WAVEFRONT TECHNOLOGY SOLUTIONS INC.**  
**Condensed Consolidated Interim Statements of Financial Position**  
**As at November 30, 2017 and August 31, 2017**  
(Canadian dollars)  
(Unaudited)

	<u>Note</u>	November 30, 2017	August 31, 2017
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents		\$ 1,677,576	\$ 2,444,249
Trade and other receivables		1,024,697	1,125,930
Inventories	3	170,229	170,133
Prepaid expenses and other current assets		322,283	33,269
		3,194,785	3,773,581
<b>NON-CURRENT ASSETS</b>			
Deposits		24,150	24,150
Property, plant and equipment	3	1,371,638	1,438,753
		\$ 4,590,573	\$ 5,236,484
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>CURRENT LIABILITIES</b>			
Trade accounts payable and accrued liabilities		\$ 1,238,052	\$ 1,086,753
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	4 b	66,438,909	66,438,909
Share based payment reserve	4 d	9,386,640	9,363,732
Accumulated other comprehensive income		564,809	548,324
Deficit		(73,037,837)	(72,201,234)
		3,352,521	4,149,731
		\$ 4,590,573	\$ 5,236,484

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

**WAVEFRONT TECHNOLOGY SOLUTIONS INC.**  
**Condensed Consolidated Interim Statements of Net Loss and**  
**Comprehensive Loss**  
**Three month period ended November 30, 2017 and 2016**  
**(Canadian dollars)**  
**(Unaudited)**

	Note	November 30, 2017	November 30, 2016
Revenue		\$ 276,667	\$ 634,517
Cost of sales		84,190	200,747
General and administrative		724,083	1,026,652
Amortization and depreciation	3	70,568	84,005
Sales and marketing		209,479	182,184
Research and development		21,984	36,253
		1,110,304	1,529,841
<b>OPERATING LOSS</b>		<b>(833,637)</b>	<b>(895,324)</b>
<b>OTHER (EXPENSES) INCOME</b>			
Financing costs		(7,777)	(92)
Financing income		4,811	27,563
		(2,966)	27,471
<b>NET LOSS</b>		<b>(836,603)</b>	<b>(867,853)</b>
<b>OTHER COMPREHENSIVE INCOME</b>			
Items that may be reclassified subsequently to net loss			
Translation gain on foreign operations		16,485	5,988
<b>COMPREHENSIVE LOSS</b>		<b>\$ (820,118)</b>	<b>\$ (861,865)</b>
<b>WEIGHTED AVERAGE NUMBER OF SHARES</b>			
Basic and diluted	5	82,956,240	82,956,240
<b>LOSS PER COMMON SHARE</b>			
Basic and diluted	5	\$ (0.01)	\$ (0.01)

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

**WAVEFRONT TECHNOLOGY SOLUTIONS INC.**  
**Condensed Consolidated Interim Statements of**  
**Changes in Shareholders' Equity**  
**Three month period ended November 30, 2017 and 2016**  
(Canadian dollars)  
(Unaudited)

	Share capital	Share based payment reserve	Accumulated other comprehensive (loss) income	Deficit	Total
<b>Balance at August 31, 2016</b>	66,438,909	9,025,103	574,109	(68,491,140)	\$ 7,546,981
Net Loss	-	-	-	(867,853)	(867,853)
Translation gain on foreign operations	-	-	5,988	-	5,988
Recognition of shared-based payments	-	139,040	-	-	139,040
<b>Balance at November 30, 2016</b>	66,438,909	9,164,143	580,097	(69,358,993)	\$ 6,824,156
Net Loss	-	-	-	(2,842,241)	(2,842,241)
Translation gain on foreign operations	-	-	(31,773)	-	(31,773)
Recognition of shared-based payments	-	199,589	-	-	199,589
<b>Balance at August 31, 2017</b>	66,438,909	9,363,732	548,324	(72,201,234)	\$ 4,149,731
Net Loss	-	-	-	(836,603)	(836,603)
Translation loss on foreign operations	-	-	16,485	-	16,485
Recognition of shared-based payments	-	22,908	-	-	22,908
<b>Balance at November 30, 2017</b>	\$ 66,438,909	\$ 9,386,640	\$ 564,809	\$ (73,037,837)	\$ 3,352,521

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

**WAVEFRONT TECHNOLOGY SOLUTIONS INC.**  
**Condensed Consolidated Interim Statements of Cash Flows**  
**Three month period ended November 30, 2017 and 2016**  
**(Canadian dollars)**  
**(Unaudited)**

	Note	November 30, 2017	November 30, 2016
<b>OPERATING ACTIVITIES</b>			
Net loss		\$ (836,603)	\$ (867,853)
Items not affecting cash			
Impact of foreign translation		12,072	(14,303)
Amortization and depreciation	3	70,568	84,005
Share-based payments	4 d	22,908	139,040
Gain on disposal of property, plant and equipment		-	(1,554)
Interest expense		2,573	92
		(728,482)	(660,573)
Interest paid		(2,573)	(92)
Net change in non-cash working capital items		(36,578)	(214,915)
Cash used in operating activities		(767,633)	(875,580)
<b>INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment	3	(1,748)	(16,525)
Proceeds on disposal of property, plant and equipment		-	3,000
Cash used in investing activities		(1,748)	(13,525)
Foreign exchange loss on cash held in foreign currency		2,708	18,223
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>			
		(766,673)	(870,882)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>			
		2,444,249	5,575,995
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>			
		\$ 1,677,576	\$ 4,705,113
<b>CASH AND CASH EQUIVALENTS</b>			
Cash denominated in CDN		\$ 1,588,906	\$ 4,257,645
Cash denominated in USD		71,028	333,285
Foreign currency translation amount		17,642	114,183
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>			
		\$ 1,677,576	\$ 4,705,113

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

**WAVEFRONT TECHNOLOGY SOLUTIONS INC.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
Three months ended November 30, 2017 and 2016  
(Canadian dollars)  
(Unaudited)

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**1. NATURE OF OPERATIONS AND CORPORATE INFORMATION**

Wavefront Technology Solutions Inc.'s ("Wavefront" or the "Company") business operates in a market where there is increasing demand to bring economically beneficial solutions to exploration and production companies (or "E&P" companies) to maximize oil and gas productivity. Central to Wavefront's broad portfolio of core technologies is the fluid delivery process, Powerwave™ that encompasses the life cycle of a client's post exploration operations. Powerwave is an effective method for: mature field revitalization (improved oil recovery or "IOR"; and / or enhanced oil recovery or "EOR"), increasing well productivity through well workovers or stimulation, and performance drilling.

The Company is incorporated under the Canada Business Corporations Act. Its shares are listed on the TSX Venture Exchange under the symbol of WEE and also trade on the OTCQX International under the symbol of WFTSF.

The address of the registered head office of the Company is 5621 – 70 Street NW, Edmonton, Alberta. The Company is domiciled in Canada.

**2. STATEMENT OF COMPLIANCE**

*a) Statement of compliance*

These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting using accounting policies under International Financial Reporting Standards ("IFRS") for interim financial information. These unaudited condensed consolidated interim financial statements have been prepared using the same accounting policies and methods of computation as the annual consolidated financial statements for the fiscal year ended August 31, 2017, with the exception of the impact of certain amendments to accounting standards or new interpretations issued by the IASB, which were applicable from September 1, 2017, as described in the unaudited condensed consolidated interim financial statements for the period ended November 30, 2017.

These unaudited condensed consolidated interim financial statements were approved for issue on January 24, 2018.

*b) Going concern*

These condensed interim consolidated financial statements were prepared on a going concern basis. The going concern basis of accounting assumes that the Company will continue its operations for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

**WAVEFRONT TECHNOLOGY SOLUTIONS INC.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**Three months ended November 30, 2017 and 2016**  
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At November 30, 2017, the Company had yet to achieve profitable operations and had an accumulated deficit of \$73,037,837 (August 31, 2017 - \$72,201,234) and recognized a net decrease in cash and cash equivalents of \$766,673 (November 30, 2016 - \$870,882). Whether and when the Company can obtain profitability and positive cash flows from operations is uncertain. The lack of profitable operations and continuing decreases in cash and cash equivalents may cast significant doubt on the Company's ability to continue as a going concern.

The Company currently has a working capital of \$1,956,733 (August 31, 2017 - \$2,686,828).

The ability to continue as a going concern is dependent on equity or debt financings and / or generating profitable operations in the future on order to meet liabilities as they come due and enable the Company to continue operations. The ability to continue as a going concern may also be adversely impacted by customer technology adaptation rates, sales cycles, the loss of customers and sales per customer. The outcome of such matters cannot be predicted at this time.

These condensed interim consolidated financial statements do not include any adjustments which could be significant to the amounts and classification of assets and liabilities that may be necessary should the Company be unable to obtain equity or debt financings and / or generating profitable operations in the future. Failure to continue as a going concern would require the restatement of assets, liabilities and shareholders' deficiency on a liquidation basis, which could differ materially from the going concern basis.

*c) New standards issued but not adopted*

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective and determined that the following may have an impact on the Company:

Statement of Cash Flows ("IAS 7")

In January 2016, the IASB issued amendments to IAS 7 "Statement of Cash Flows". The amendments will require entities to provide disclosure that enables users of financial statements to evaluate changes in liabilities arising from financing activities, including changes arising from cash flows and non-cash changes. The amendments are effective for annual periods beginning on or after January 1, 2017, with earlier application permitted. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

Income Taxes ("IAS12")

In January 2016, the IASB issued amendments to IAS 12 "Income Taxes". The amendments were related to the recognition of deferred tax assets for unrealized losses, which clarified how to account for deferred tax assets related to debt instruments measured at fair value. The amendments are effective for annual periods beginning on or after January 1, 2017, with earlier application permitted. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

**WAVEFRONT TECHNOLOGY SOLUTIONS INC.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
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Share-based Payments (“IFRS 2”)

In June 2016, IASB issued amendments to IFRS 2 “Share-based Payments”. The amendments clarified the standard in relation to the accounting for cash-settled share-based payment transactions that include a performance condition, the classification of share-based payment transactions with a net settlement features and the accounting for modifications of share-based payment transactions from cash-settled to equity-settled. The amendments are effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

Financial Instruments: Classification of Measurement (“IFRS 9”)

IFRS 9, Financial Instruments, will replace IAS 39, Financial Instruments: Recognition and Measurement. The new standard includes guidance on recognition and derecognition of financial assets and financial liabilities, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

Revenue from Contracts with Customers (“IFRS 15”)

In April 2016, the IASB issued amendments to IFRS 15 “Revenue from Contracts with Customers”. The amendments clarified three aspects of the standard (identifying performance obligations, principal versus agent considerations and licensing) and provided some transition relief for modified contracts and completed contracts. The amendments are effective for annual periods beginning on or after January 1, 2018 (same effective date as IFRS 15 itself), with earlier application permitted. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

Leases (“IFRS 16”)

IFRS 16, *Leases*, was issued by the IASB in January 2016, and will replace International Accounting Standards (“IAS”) 17, “Leases”. IFRS 16 will bring most leases on-balance sheet for leases under a single model, eliminating the distinction between operating and finance leases. Lessor accounting remains largely unchanged and the distinction between operating and finance leases is retained. The new standard effective for annual periods beginning on or after January 1, 2019, with early application permitted if IFRS 15 has also been applied. The Company is currently evaluating the impact of this standard on its consolidated financial statements.



**WAVEFRONT TECHNOLOGY SOLUTIONS INC.**  
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**3. PROPERTY, PLANT AND EQUIPMENT**

As at November 30, 2017	Tools and equipment	Computer, automotive and office equipment	Leasehold improvements	Total
<b>Cost</b>				
Balance at August 31, 2017	\$ 3,965,659	\$ 875,095	\$ 862,875	\$ 5,703,629
Additions	1,748	-	-	1,748
Impact of foreign translation	6,101	6,454	-	12,555
Balance at November 30, 2017	3,973,508	881,549	862,875	5,717,932
<b>Accumulated depreciation</b>				
Balance at August 31, 2017	(2,978,842)	(770,710)	(515,324)	(4,264,876)
Depreciation	(36,694)	(7,026)	(26,848)	(70,568)
Impact of foreign translation	(5,506)	(5,344)	-	(10,850)
Balance at November 30, 2017	(3,021,042)	(783,080)	(542,172)	(4,346,294)
<b>Net book value</b>				
Balance at May 31, 2017	\$ 952,466	\$ 98,469	\$ 320,703	\$ 1,371,638

Depreciation expense for the three months ended November 30, 2017 was \$70,568 (November 30, 2016 - \$84,005).

As at November 30, 2017 property, plant and equipment includes tools and equipment under construction of \$306,258 (August 31, 2017 - \$312,236), which are not being depreciated. Included in the equipment under construction is \$236,196 (August 31, 2017 - \$236,196) of raw material and consumable inventory. The classification of raw material and consumable inventory to non-current is based on a prior period's analysis of inventory that is not expected to be consumed with the Company's next operating cycle.

As at November 30, 2017, the Company assessed impairment indicators for the Company's cash generating units ("CGUs") and concluded that apart from prior years' impairment indicators that no impairment indicators were present.

**4. SHARE CAPITAL**

The Company's authorized and issued share capital is as follows:

*a) Authorized share capital*

Unlimited common shares without par value

The Company's issued share capital is as follows:

**WAVEFRONT TECHNOLOGY SOLUTIONS INC.**  
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**Three months ended November 30, 2017 and 2016**  
**(Canadian dollars)**  
**(Unaudited)**

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*b) Issued common shares*

There were no changes in the Company's outstanding common shares, which have the following balances:

	<u>November 30, 2017</u>	
	<u>Number</u>	<u>Stated capital</u>
Balance, beginning of period	82,956,240	\$ 66,438,909
Balance, end of period	82,956,240	\$ 66,438,909

*c) Stock-based compensation plan*

The Company maintains an Employee, Director, Officer and Consultant Stock Option Plan under which the Company may grant incentive stock options for up to 10,771,558 shares of the Company at an exercise price not be less than the "Discounted Market Price" (as defined in the policies of the TSX Venture Exchange), provided that the exercise price shall not be less than \$0.05 per share. All stock options awarded are exercisable for a period of up to ten years and vest in equal tranches at three month intervals over a period of eighteen months.

*Movements in stock options during the period*

A summary of the status of the Company's Stock Option Plan is presented below:

	<u>November 30, 2017</u>	
	<u>Number</u>	<u>Weighted average exercise price</u>
Outstanding, beginning of period	4,325,000	\$ 0.27
Expired unexercised	(75,000)	0.41
Outstanding, end of period	4,250,000	\$ 0.27

*Fair value of stock options granted during the period*

The fair value for the compensation costs of stock options issued to both employees and non-employees were calculated using the Black-Scholes option pricing model resulting in an additional charge to general and administrative expense with a corresponding increase in share based payment reserve.

**WAVEFRONT TECHNOLOGY SOLUTIONS INC.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
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**(Canadian dollars)**  
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During the three months ended November 30, 2017, the Company incurred \$22,908 (November 30, 2016 - \$139,040) in compensation expense relating to outstanding stock options.

*d) Share-based payment reserve*

	<u>November 30, 2017</u>
Balance, beginning of period	\$ 9,363,732
Share-based payments	22,908
<b>Balance, end of period</b>	<b>\$ 9,386,640</b>

**5. LOSS PER SHARE**

The weighted average number of common shares outstanding for basic and diluted loss per share is 82,956,240 (November 30, 2016 - 82,956,240).

In determining diluted loss per share, the weighted average number of shares outstanding for the period ended November 30, 2017 excluded 520,382 (November 30, 2016 – 556,564) for stock options eligible for exercise where the average market price of the common shares for the year exceeds the exercise price because the result was anti-dilutive in both periods.

**6. RELATED PARTY TRANSACTION**

*Expense transaction*

The Company entered into a Consulting Agreement with a director of the Company to provide certain services for a monthly fee of US \$5,000 per month. During the three months ended November 30, 2017, the Company recorded \$18,835 (November 30, 2016 – \$19,899) in consulting expense, with \$nil (August 31, 2017 - \$nil) included in accounts payable and accrued liabilities.

**7. SEGMENTED INFORMATION**

The Company is a technology company and operates with one reportable segment that covers all aspects of the Company's business.

Wavefront considers the basis on which it is organized, including the economic characteristics and geographic areas, in identifying its reportable segment. The operating segment(s) of the Company is defined as components of the Company for which separate financial information is available and is evaluated regularly by the chief operating decision maker in allocating resources and assessing performance. The chief operating decision maker of the Company is the President and Chief Executive Officer. The Company has one group of similar products due to having a similar underlying technology, class of customers and economic characteristics.

# **WAVEFRONT TECHNOLOGY SOLUTIONS INC.**

## **Notes to the Condensed Consolidated Interim Financial Statements**

**Three months ended November 30, 2017 and 2016**

**(Canadian dollars)**

**(Unaudited)**

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### **8. SEASONALITY OF OPERATIONS**

Oilfield services offered by the Company are seasonal and relate to specific products and the geographical extent to which those products are offered for rent or sale. Wavefront's Powerwave well stimulation and tubing pump and bailer product offerings, in relation to oilfield services, involve the rental and sale of downhole equipment. Due to temperature influences on operating conditions as well as customer budget cycles, the months of December through April have lower activities levels.