

# WAVEFRONT

Wavefront Technology Solutions Inc.

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Quarterly Report

For the first

Quarter ended

November 30, 2014



*The following discussion and analysis of financial results should be read in conjunction with the audited financial statements and the accompanying notes for the quarter ended November 30, 2014 and is based on information available to January 28, 2015. Additional information on Wavefront Technology Solutions Inc.'s (the "Company" or "Wavefront") is available on SEDAR at [www.sedar.com](http://www.sedar.com).*



## Management's Discussion and Analysis of Financial Condition and Results of Operations

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### MANAGEMENT'S RESPONSIBILITY

Management has prepared this Management's Discussion and Analysis ("MD&A"). The MD&A is based upon Wavefront Technology Solutions Inc.'s (the "Wavefront" or "the Company") financial results prepared in accordance with IFRS. The MD&A primarily compares the unaudited financial results for the first quarter ended November 30, 2014 to November 30, 2013. Management has established and maintains an accounting and reporting system supported by internal controls designed to safeguard assets from loss or unauthorized use and ensure the accuracy of the International Financial Reporting Standard's ("IFRS") financial records (also see section titled "Controls and Procedures" page 17). The financial information presented throughout this MD&A should be read in conjunction with the unaudited condensed consolidated interim financial statements and related notes for the quarter ended November 30, 2014 as well as the audited consolidated financial statements for the period ended August 31, 2014 and 2013 and the related notes.

Unless otherwise indicated, all amounts shown below are in Canadian dollars. Additional information regarding our Company is available on SEDAR, [www.sedar.com](http://www.sedar.com). Such additional information is not incorporated herein, unless otherwise specified, and should not be deemed to be made part of this MD&A.

The Audit Committee of the Board of Directors, whose members are independent as defined in National Instrument 52-110: Audit Committee, met to review the condensed consolidated interim financial statements with management, and has reported to the Board of Directors thereon. On the recommendation of the Audit Committee, the Board of Directors has approved the condensed consolidated interim financial statements.

### NON-IFRS MEASURES

The Company uses IFRS, additional and non-IFRS measures to make strategic decisions, set targets and are used in operating activities, as well the Company believes that these additional and non-IFRS measures provide useful supplemental information to investors. "Working capital", "gross profit", "gross profit margin", "cash used in operating activities", "other technology revenues", and "EBITDA" are measures used by the Company that do not have a standard meaning prescribed by IFRS and may not be comparable to similar measures used by other companies.

- Working capital is calculated by subtracting current liabilities from current assets. Working capital is a non-IFRS measure with no comparable IFRS measure;
- Gross profit is calculated by deducting cost of sales which includes direct costs, such as direct materials, direct labour, travel related expenditures, sub-contractors, shipping, duties and taxes, from gross revenue. Gross profit margin is calculated by dividing the gross profit by gross revenue. Gross profit is a non-IFRS measure with no comparable IFRS measure;
- Cash used in operating activities is a measure of the total cash generated from the Company's operations and is calculated by adding back amortization, share based payments and other non-cash items to net income and then adjusting for changes in working capital. Cash used in operating activities is a component of the IFRS consolidated statement of cash flows;
- Other Technologies Revenue consists of Primawave and Performance Drilling revenues. Other technologies revenues are non-IFRS measure with the most comparable IFRS measure being revenues, and,



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- EBITDA, an acronym for earnings before interest, taxes, depreciation, and amortization, is calculated by adding back all interest, tax, depreciation and amortization to net loss. EBITDA is an additional IFRS measure with the most comparable IFRS measure is net income (loss).

Non-IFRS measures are viewed as key information as the chief decision maker, being the President and Chief Executive Officer, regularly reviews such measures in making expense and capital investment decisions. Wavefront also believes that the non-IFRS measures defined here are useful for providing investors with additional information to assist them in understanding components of Wavefront's financial results.

### OVERVIEW OF BUSINESS

Wavefront's business operates in a market where there is increasing demand to bring economically beneficial solutions to exploration and production companies to maximize oil and gas productivity. Central to Wavefront's broad intellectual property portfolio is the fluid delivery process, Powerwave that encompasses a client's post exploration operations.

With projects and/or marketing affiliations in ten countries, Wavefront focuses on two primary areas to maximize oil and gas productivity:

- i. Oil and gas well stimulation (revitalizing individual well productivity); and,
- ii. Enhanced Oil Recovery ("EOR") by improving fluid flow through the oil reservoir.

A single well stimulation is a remedial operation performed on a producing well to restore or enhance productivity. In some instances a chemical is pumped into the well to stimulate a producing interval. In other cases stimulation is used to remove scales such as calcium carbonate or barite, to rid a well of accumulated waxes on tubulars or to remove sand fill. A single well stimulation is generally on the order of one day compared to EOR flooding operations (i.e. waterflooding) that can last much more than a decade.

Improved well stimulation leading to increased post-stimulation production performance is achieved with Wavefront's Powerwave well stimulation tools that maximize volumetric contact area with the well completion and reservoir during the stimulation operation. The well stimulation market is in excess of \$1 billion annually<sup>1</sup> as virtually all production and injection wells periodically require some form of stimulation to enhance production or injection.

EOR (including waterflooding) targets oil trapped in the nooks and crannies of a reservoir which are very difficult to produce due to various physical limitations. The common theme in all EOR (except acoustic or electromagnetic) projects are the injection of a fluid to mobilize the trapped oil.

It is well established that many once-prolific oil fields are reaching or have reached maturity with production rates from these fields in steady decline. Not so widely known is that even after many stages of production, up to 60% of all oil remains stranded in these fields. Advanced technologies such as Powerwave that can unlock and mobilize the stranded oil hold significant promise to maximize overall oil recovery from reservoirs.

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<sup>1</sup> Ducker Worldwide, LLC 2014



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In North America there are 166,401 active wells<sup>2</sup> used to inject water, polymers, surfactants, and combinations thereof. These wells are heavily concentrated in Alberta, California, and Texas.

### OUTLOOK

Wavefront has a comprehensive market opportunity within the oil industry and focus continues on positioning the Company to capitalize on growth prospects. The Company believes there are two industry segments: the \$126 billion EOR market<sup>3</sup>, to which the Company believes that no competitor has a similar, diverse portfolio of unique fluid injection methodologies, tools, and know-how proven to maximize reservoir recovery; and the well stimulation market with an estimated +250,000<sup>4</sup> well stimulations performed annually. The breadth of these two industry initiatives is vast thus when Powerwave is fully commercialized, Wavefront may have sizeable upside revenue generation potential.

Wavefront's operations in both Canada and the United States remain concentrated with a few key customers and our revenues are subject to fluctuations in customers operating activity in the areas in which we are servicing them. Levels of activity have historically and more recently been impacted by numerous factors including, but not limited to volatility in commodity pricing which has seen oil prices fall over 50% since the summer of 2014; client operational and project scheduling difficulties as well as client infrastructure limitations, and budgetary priorities. The Company does not expect the North American EOR activity to grow for the remainder of fiscal 2015 however this may be offset by gains in the international EOR market. In the current low priced oil environment Wavefront's Powerwave stimulation and Neptune EOR tools may have increased desirability as individual well productivity enhancement will be pivotal to maintain oil production output. Overall financial results may also remain susceptible to technology adaption rates, client project scheduling, direct and indirect competition, and pricing pressure from customers as they seek to cut costs to improve profitability.

To manage customer reliance, Wavefront will also look to diversify the customer base within its focus areas of Alberta, Texas, California, and Rocky Mountain region. Outside of North America, in markets such as, Saudi Arabia, Oman, United Arab Emirates, Colombia, Argentina, Brazil, Mexico, and Romania the Company collaborates with third-party marketing partners and international service companies to drive local market penetration.

Internationally Wavefront has confirmed Powerwave contracts in Argentina, Colombia, Mexico, and Brazil as well as an expanded Powerwave program for Oman. In all countries but Brazil these contracts are entered into with oil producers through the Company's third-party representatives or distributors. These representatives and distributors are "Powerwave Certified Providers" and act as our Company's "boots on the ground" functioning as Wavefront's daily marketing arm, holders of inventory, and personnel for Powerwave related work. Representatives, distributors and exploration and production ("E&P") clients have indicated that at this time they anticipate all projects will continue as planned for fiscal 2015.

Wavefront is committed to reducing expenses, improving performance, increasing market penetration, and creating shareholder value. By focusing Powerwave marketing within two well defined industry verticals, Wavefront is seeking to minimize technology risk and accelerate commercialization timelines. We remain confident that with our know-how as well as the experience and positioning of our marketing partners that over the long-term our Company will continue to succeed to grow market penetration in key geographical areas.

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<sup>2</sup> Ducker Worldwide, LLC 2014

<sup>3</sup> PRNewswire September 2012, announcing Reportlinkers 2012 Enhanced Oil Recovery, 2<sup>nd</sup> Edition report

<sup>4</sup> Ducker Worldwide, LLC 2014



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Should however, the industry continue to experience economic adversities, Wavefront may ensure its sustainability by rationalizing and focusing its resources on the markets and products that provide positive contribution margins. This may also provide a scalable base on which to help accelerate other products that are at the early commercialization stage.

### OVERALL RESULTS FROM OPERATIONS

Wavefront 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 (such as the nature of the products and service, types of customers, quantitative and qualitative thresholds, etc.) 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.

Within this MD&A, however, Wavefront provides additional product level information such as revenues by product line and geography, and gross profit margins by product line, which are within its one reportable segment, as it believes this additional information is useful supplemental information to investors with respect to the development of the business.

In the first quarter of 2015, Wavefront's total revenue amounted to \$1,493,590, which was a decrease of 9% compared to the comparative quarter that reported total revenues of \$1,646,640 during a period of declining commodity prices, heavy oil price differentials and international project delays. The largest decline in revenues from the comparative quarter was related to declines in international EOR revenues and amounted to \$231,787.

During this period of declining and volatile markets, Wavefront was able to marginally increase revenues to \$1,493,590 from the fourth quarter ended August 31, 2014 (i.e., the three months ended August 31, 2014) that reported revenues of \$1,486,805. Moreover, during this time of market volatility, Powerwave cash generating unit ("CGU") revenues increased from fourth quarter 2014 to first quarter 2015 by approximately \$92,000, while overall gross profits increased by approximately \$166,820. The increase in gross profits coupled with decreases in sales and marketing, general and administrative, and research and development expenses by \$177,205 provided for a decrease, prior to non-cash impairment loss, of net losses by \$130,312 to \$678,672.

With specific concentration on increasing market penetration for Wavefront's stimulation suite of tools the Company believed that this may, in the short term, affect Powerwave EOR revenue growth. This strategic decision has shown to be positive as Powerwave well stimulation gross revenues increased by \$220,720 or 43.3% to \$729,954 in first quarter 2015 from \$509,234 in first quarter 2014.

Also during the quarter the Company entered into an agreement to provide Powerwave stimulation technology with a top-tier oil field service provider for its operations in the United Arab Emirates. Under the terms of the agreement Wavefront will provide tools and training at a fixed monthly rate and will be paid fifty (50%) per cent of the total monthly revenue related to Powerwave well stimulations generated by the service provider.

Subsequent to the reporting period, the Company commenced installation of the Petrobras EOR project in Brazil and is scheduled to install Powerwave EOR tools with Pan American Energy and Ecopetrol in February 2015. These EOR projects will have combined approximate revenues that are in excess of \$2,000,000, which the Company, once the tools are installed, will commence recognizing revenue over the term of the contracts.



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In addition, subsequent to the reporting period, the Company finalized its first sale of EOR tools that it was previously invoicing monthly fees for a combined price of \$450,000 for the tools and a one year license. The concept of selling EOR tools was anticipated and outlined in the Company's strategy in fiscal 2014. This strategy was adopted to potentially increase the uptake of EOR sale volumes.

### Impairment

The Company considers both external and internal sources of information in assessing whether there are any indications that any of its CGUs are impaired. External sources of information that the Company considers include changes in the market, economic and legal environments in which the Company operates that are not within its control and may affect the recoverable amount of its net carrying amount of its assets. Internal sources of information the Company considers include any obsolescence, utilization or expected utilization rates, and economic performance or performance compared to Management's expectations of its CGUs' assets. In assessing whether there is objective evidence that the Company's assets are impaired, Management considers observable data including the carrying amount of the Company's net assets as compared to the Company's market capitalization.

As at November 30, 2014, the Company believed that external impairment indicators such as the carrying amount of net assets exceeding market capitalization, the drop in and volatility in oil prices, and the changes to operating and capital budgets of E&P companies were present, despite the growth in revenues from the prior quarter, thus requiring the Company to test the recoverable amounts of the various CGUs with market influences information as at November 30, 2014.

The model used to evaluate impairment was the value in use calculation, which is based on a discounted cash flow model. In determining the recoverable amounts Management makes estimates of the discounted future after-tax cash flows expected from its various CGUs and the appropriate discount rates of those CGUs. The projected cash flows are significantly sensitive to changes in assumptions about Wavefront's technology commercialization rates, contract conversion rates, project timing, cost of sales and other expenses, commodity prices and E&P company budgetary reactions to commodity pricing. These key assumptions affect estimated growth rates beyond the periods covered by the Company's most recently board approved forecasts in determining recoverable amounts. In reconciling growth rates the Company used product line historical growth rates and an external consultant's, Ducker Worldwide LLC, strategic plan for bear market conditions and then discounted those expectations given observable indicators such as market capitalization. Further information regarding assumptions and estimates used, as well as a sensitivity analysis in respect of each of the annual growth rate and discount rate applied, being the key assumptions, is contained in Note 3, "Impairment" of the Unaudited Interim Condensed Consolidated Financial Statements for the period ended November 30, 2014.

As at November 30, 2014, the Company recognized a non-cash impairment expense related to the Powerwave, Primawave and Performance Drilling CGUs of \$2,054,590, which is comprised of a \$1,655,206 non-cash impairment charge to property, plant and equipment and \$399,384 non-cash impairment charge to intangible assets. This non-cash loss does not have an impact on the Company's cash flows from operating activities and will not have an impact on the CGUs' future operations. The Company also assessed the fair value for the Tubing Pump and Bailers CGU, which it recorded an impairment loss of \$1,338,584 in fiscal 2014, and determined no impairment was required as at November 30, 2014.

Management believes that the methodology used to impair the CGUs, which involves significant number of judgments and estimates, provides a reasonable basis for determining the impairment. Many factors used in determining the

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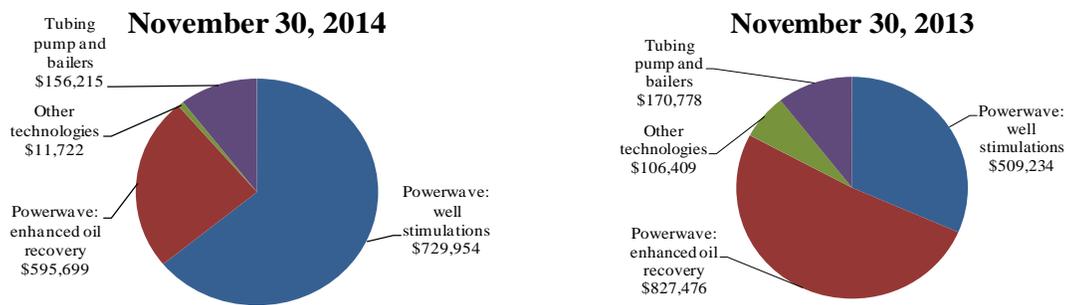
impairment are outside Management’s control and involve inherent uncertainty. Therefore, actual results could differ from those estimates and further changes in the numerous variables associated with the judgments, assumptions and estimates made in assessing the impairment could cause the CGUs to be further impaired.

Given the continued volatility of markets, the Company will continue to monitor impairment indicators and to test for the recoverable amounts of the various CGUs as required.

### Consolidated Results – three months ended November 30, 2014

#### Revenues

Revenues for the three months ended November 30, 2014 were \$1,493,590, a decrease of \$153,050 over the comparative quarter ended November 30, 2013 that recognized revenues of \$1,646,640. The changes in product line mix can be characterized as follows:



Revenue attributed to Powerwave product lines were \$1,329,565, a decrease of \$7,145 over revenues in the comparative quarter of \$1,336,710. The Powerwave product line revenues can then be broken into short-term projects involving well stimulations and long-term projects related to using Wavefront’s technology in EOR projects.

For the first quarter 2015, the total revenue related to Powerwave EOR projects totalled \$595,699 compared to \$827,476 in the comparative quarter. Of the \$595,699 of revenue related to Powerwave EOR projects \$261,000 related to Canadian projects and \$274,332 related to international projects.

For the first quarter 2015, Powerwave revenues related to well stimulations totalled \$729,954, an increase of \$220,720 or 43.3%, compared to \$509,234 in the comparative quarter.

For the first quarter 2015, revenues from the tubing pumps and bailer product totalled \$156,215 compared to \$170,778 in the comparative quarter. Tubing pumps and bailer revenues comprise of tool rental, delivery and refurbishment fees. The Company expects to see continued variation in tubing pump and bailer revenues as more resources are designated to Powerwave projects and lower heavy oil drilling activity in Western Canada due to current oil prices.

For the first quarter 2015, Other Technology revenues totalled \$11,721 for the reporting period compared to \$106,409 from the comparative quarter. The Company expects to see continued variation in Other Technology revenues quarter over quarter but anticipates some higher usage in the period May to October.



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Geographically, \$504,740 (2013 – \$642,758) in revenue was generated in Canada, \$714,017 (2013 - \$448,863) from the United States, and \$274,833 (2013 - \$515,019) internationally. The Company's focus in Canada and the US is on Powerwave well stimulation and EOR projects. Working with our marketing partners and internal sales personnel our Company's goal is to broadly expand the client base in well stimulation and EOR. The geographic revenues are more specifically described as follows:

**Canada.** Gross revenues in our Canadian operation decreased by \$105,275 to \$504,740 compared to \$642,758 in comparative quarter. Powerwave EOR project revenues totalled \$261,000 (2013 - \$241,500); Powerwave stimulation revenues in Canada totalled \$87,526 (2013 - \$184,187); and tubing pump and bailer revenues totalled \$156,215 (2013 - \$170,778).

**United States.** Gross revenues in our US operation increased by \$225,154 to \$714,017 (2013 - \$488,863). Powerwave EOR project revenues totalled \$60,367 (2013 - \$79,857); Powerwave stimulation revenues totalled \$642,428, an increase of \$324,731 or 102% over comparative revenues of \$317,697; and Other Technology revenues totalled \$11,222 (2013 - \$91,309).

**International:** Gross revenues outside our Canadian and US operation decreased by \$240,186 to \$274,833 (2013 - \$515,019). Powerwave EOR project applications revenues totalled \$274,332 (2013 - \$506,119) Powerwave stimulation revenues internationally totalled \$nil (2013 - \$7,350); and Other Technology revenues totalled \$500 (2013 - \$1,550). Given the interest in technology to bolster oil production in aging fields our Company will continue to aggressively market in the international community including Latin and South America, Brazil, the Middle East, Europe and certain sectors of Asia. To this end we expect to experience periodic increases in marketing costs in advance of Powerwave contracts.

### Direct Expenses

Costs of sales for the three month period ended November 30, 2014 were \$365,342 or 24.5% of revenues (2013 - \$508,226 or 30.9% of revenues).

The decrease in costs of sales of \$142,884 related to costs of sales in international projects and a prior period adoption of a field incentive and commission program designed at enhancing sales. Management believes that such variable pay has lead to increases in Powerwave revenues particularly in well stimulations and in future international EOR revenue.

### Gross Profit

The following table sets out the gross profit margins by product line for the first quarter ended November 30, 2014:

	<u>Powerwave EOR</u>	<u>Powerwave Stimulation</u>	<u>Tubing pumps &amp; bailers</u>	<u>Other Technologies</u>	<u>Total</u>
Revenues	\$ 368,871	\$ 956,783	\$ 156,215	\$ 11,721	\$ 1,493,590
Costs of sales	16,916	264,090	83,514	822	365,342
	\$ 351,955	\$ 692,693	\$ 72,701	\$ 10,899	\$ 1,128,248
Gross profit margin (note 1)	95.4%	72.4%	46.5%	93.0%	75.5%

*note 1: Gross profit margin is calculated by subtracting direct costs from revenue and dividing the result by revenue, and is further discussed in Non-IFRS Measures*



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The following table sets out the gross profit margins by product line for the first quarter ended November 30, 2013:

	Powerwave EOR	Powerwave Stimulations	Tubing pumps & bailers	Other Technologies	Total
Revenues	\$ 827,476	\$ 509,234	\$ 170,778	\$ 139,152	\$ 1,646,640
Costs of sales	207,401	213,898	50,591	36,336	508,226
Gross profit margin (note 1)	74.9%	58.0%	70.4%	73.9%	69.1%

note 1: Gross profit margin is calculated by subtracting direct costs from revenue and dividing the result by revenue, and is further discussed in Non-IFRS Measures

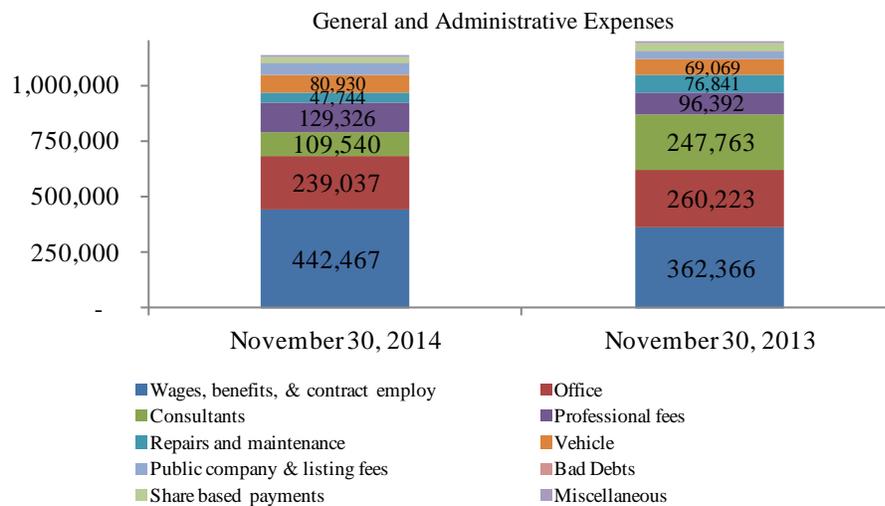
In addition to the above noted revenues for the comparative quarter ended November 30, 2013, the Company had oil and gas production revenues of \$32,743.

The Company's goal is to continue to accelerate revenue growth while maximizing gross profit margins.

### Other Expenses

Other expenses for the first quarter ended November 30, 2014, amounted to \$3,861,510, compared to \$1,956,710 in 2013. Excluding the non-cash impairment charge as noted above (page 5) and costs of sales, expenses for the first quarter ended November 30, 2014 amounted to \$1,806,920, which was a decrease in these expenses of \$149,790. The change in expenses was principally a result of the following changes:

- i) The recognition of a non-cash impairment expense related to the Powerwave, Primawave and Performance Drilling CGUs of \$2,054,590 that only occurred in the November 30, 2014 reporting period.
- ii) The following chart illustrates the general and administrative expenses (November 30, 2014 - \$1,124,096; November 30, 2013 - \$1,193,415):



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General and administrative expenses decreased by \$69,319 and principally relate to the following:

- Decreases in consulting fees of \$138,223 to \$109,540 related principally to the use of external consultants in the comparative quarter for strategic planning.
  - Decreases in bad debt expenses of \$41,822 to \$1,133, which relates to the collectability of a particular US Powerwave client in the comparative quarter.
  - Repair and maintenance expenses decreased by \$29,097 to \$47,744 principally pertaining to the repair and maintenance of the infrastructure at the South Rodney oilfield in the comparative quarter and a reduction in general shop supplies.
  - Offsetting the above noted decreases were increases in wage and employee benefits of \$80,101 to \$442,467. The decreases related to more direct labour being allocated to revenue generating projects (i.e., cost of sale) and increases in field staff in the United States given increases in Powerwave stimulations in that region.
  - The Company also incurred increases in professional fees of \$32,934 to \$129,326. The increase of professional fees principally relates to advisory work associated with transfer pricing and tax planning.
- iii) Selling and marketing expense also decreased by \$160,678 to \$248,848. The decrease is a result of an ongoing effort to manage the selling and marketing expense to ensure that these expenses relate to more near term revenues.
- iv) Offsetting the above decreases was an increase in amortization and depreciation expense by \$91,453 to \$380,118 from the comparative quarter. The amortization and depreciation expense is relatively flat compared to the prior three months ended August 31, 2014, after disposals.

### Net Finance Section of Income

Interest income of \$18,032 (2013 - \$26,379) includes interest earned for the reporting period of \$15,758 (2013 - \$24,875), and foreign exchange gain of \$2,274 (2013 - 1,504). The decrease of \$9,117 of interest income relates to lower principal balances as cash on hand was used for the building of tools for all product lines, and the funding of operations.

Financing cost of \$1,452 (2013 - \$487) only includes interest expenses for each period.

### Operating Cash Flows

The following table sets out the cash used in operations for the first quarter ended November 30, 2014 and 2013:



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	<u>As at</u> <u>November 30, 2014</u>	<u>As at</u> <u>November 30, 2013</u>
Net loss	\$ (2,716,682)	\$ (792,404)
Items not affecting cash		
Impairment	2,054,590	-
Amortization and depreciation	380,118	409,526
Unrealized foreign exchange gain	54,487	(33,975)
Share-based payment	22,996	71,935
Interest expense	1,452	5,112
Gain on disposal of property, plant and equipment	(5,918)	487
Funds from (used in) operations	(208,957)	(339,319)
Interest paid	(1,452)	(487)
Net change in non-cash working capital items	(240,769)	(499,600)
Cash used in operating activities	\$ (451,178)	\$ (839,406)

Although cash used in operating activities decreased by \$388,228 or 46.3%, Wavefront will continue to strive to work towards sustainability by focusing on expenses that related to near term revenues such as Powerwave stimulations and Neptune EOR product applications that may have greater market appeal in the low price oil environments. This does not necessarily mean that Wavefront expects to be cash flow positive in the near term.

### Net Loss and Comprehensive Loss, and Loss Per Share

The basic and diluted net loss for the quarter ended November 30, 2014 increased by \$1,924,278 to \$2,716,682 (\$0.03 per share), compared to \$792,404 (\$0.01 per share) for the comparative quarter ended November 30, 2013.

Prior to the non-cash impairment expense of \$2,054,590, the basic and diluted net loss for the quarter ended November 30, 2014 decreased by \$130,312 to \$662,092 (\$0.008 per share).

### Earnings before interest tax, depreciation and amortization ("EBITDA")

The following table sets out the Company's EBITDA loss and EBITDA loss per share:



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	As at November 30, 2014	As at November 30, 2013
Net loss	\$ (2,716,682)	\$ (792,404)
Items not affecting cash		
Amortization and depreciation	380,118	288,665
Interest and tax expense	1,452	2,265
<b>EBITDA</b>	<b>\$ (2,335,112)</b>	<b>\$ (501,474)</b>
<b>EBITDA loss per share</b>	<b>\$ (0.028)</b>	<b>\$ (0.006)</b>

*note 1: EBITDA is calculated by adding back all interest, tax, depreciation and amortization to net loss, and is further discussed in Non-IFRS Measures*

The Company's EBITDA loss and EBITDA loss per share prior to the non-cash impairment expense of \$2,054,590, for the quarter ended November 30, 2014 decreased by \$220,952 or 44.1% to \$280,522 (\$0.003 per share).

### LIQUIDITY AND CAPITAL RESOURCES

#### Assets and Liabilities

Total current assets decreased by \$407,139 to \$10,580,363 from the prior year end. Of the net decrease, \$486,154 relates to a reduction of cash resource, of which \$108,919 was used for the acquisition of additional Powerwave tools and equipment, \$552,064 was used to fund operations, and \$160,333 was used to reduce its current liabilities. The company was also able to reduce its trade and other receivables by \$214,465 that help fund the aforementioned.

The changes in accounts receivable reflect timing differences in incurring installation expenses and collecting receivables and are directly related to increased Powerwave contracts and our financial accounting policy of recognizing Powerwave revenues and direct costs equally over the term of the contracts.

Non-current assets also decreased by \$2,735,937, of which \$2,054,590 relates to non-cash impairment, \$251,166 relates to amortization and depreciation of property, plant and equipment and \$128,952 relates to the depreciation of intangible assets.

#### Liabilities

Total liabilities decreased by \$160,333 from the prior year-end to \$891,149. Of the liabilities, \$331,069 relates to trade accounts payable, and \$560,080 relates to accruals related to the Powerwave project costs, design and manufacturing of Powerwave tool inventory, sales and marketing liabilities and other various corporate services.

#### Liquidity

The following table presents working capital information as at November 30, 2014 and August 31, 2014:



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	As at November 30, 2014	As at August 31, 2014	Change
Current assets	10,580,363	10,987,502	(407,139)
Current liabilities	891,149	1,051,482	(160,333)
Working capital <sup>(note 1)</sup>	9,689,214	9,936,020	(246,806)

*note 1: Working capital is calculated by subtracting current liabilities from current assets, and is further discussed in Non-IFRS Measures*

In a prior year, Wavefront issued a Letter of Credit for \$325,000 as security for the Company's new Edmonton office and warehouse lease. The value of the Letter of Credit declines each year by \$65,000 to year four (i.e., 2014) and then is terminated after the conclusion of year five (i.e., 2015). As security against the Letter of Credit, the Company pledged a Guaranteed Investment Certificate as security. As at November 30, 2014 the balance of the Letter of Credit was \$130,000. The balance of the Company's capital is not subject to any external restrictions.

Wavefront believes that its working capital position will continue to fluctuate and that our Company's cash flow break-even will also be affected by degree of commercialization of the Powerwave EOR and well stimulation products lines, the nature of product mixes between Powerwave well stimulation, Powerwave mature field revitalization applications, Other technologies, and tubing pumps and bailers.

It is believed that, as our clients experience positive Powerwave results, further uptake of the Company's technologies will result in future cash inflows, but the Company will be required to invest in additional Powerwave tool inventories.

The Company did not default nor was it in arrears on any operating lease payments.

### Financings

There were no financings during the reporting or the comparative quarter.

### Capital Resources

Currently, and in addition to the Contractual Commitments (noted below), and in accordance with Wavefront's strategic plan, cash resources will be required for the following:

- To continue to build an inventory tool systems for all product lines for deployment to external clients;
- To support the marketing efforts with, and to train all licensees on, the implementation of our Company's core technologies; and,
- To design and build additional tool systems to allow Wavefront to expand the applications of its core technologies.

There are no known trends or expected fluctuations or restrictions in Wavefront's capital resources.

As of January 28, 2015, Wavefront had \$7,866,559 of cash on hand. Of the cash on hand, Wavefront has \$3, 631,388 in Term Deposits on deposit with TD Canada Trust, maturing on February 18, 2015, with a guaranteed interest rate of 1.05% and on February 25, 2015, with a guaranteed interest rate of 1.2%; and \$2,000,000 on deposit with



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National Bank Financial cashable anytime without penalty but maturing on November 21, 2015, with a guaranteed interest rate of 1.45%. Credit risk on the Term Deposits investment is linked to the insurance coverage limits as prescribed by the Canadian Deposit Insurance Corporation and that of TD Canada Trust and National Bank Financial.

### CONTRACTUAL COMMITMENTS

The Company has entered into long-term contractual arrangements from time-to-time for facilities, lines of credit, and the provision of goods and services. The following table presents contractual obligations arising from these arrangements currently in force:

	Payments Due by Period				
	Total	Less than 1			More than 5
		Year	1 – 3 Years	3 – 5 Years	
Operating lease obligations	\$ 1,790,819	\$ 415,215	\$ 696,353	\$ 427,512	\$ 251,739

In a prior year, the Company entered into a new office and warehouse space for its Edmonton, Alberta facilities. The office and warehouse lease had a commencement date of February 1, 2011 and a ten year term expiring on January 31, 2021. The Company has the option for early termination of the office and warehouse lease after year five (5) for a one-time payment of \$100,000. The future commitment in base rental payments is \$1,306,849 over the balance of the term.

In a prior year, the Company entered into a new sales office lease for Calgary, Alberta. The new facilities are to create a greater presence for our Company in Calgary. The office lease has a commencement date of June 15, 2011 and a five (5) year term expiring on June 14, 2016. The balance of the future commitment in base rental payments is \$71,212.

As well, in a prior year, the Company entered into a new office and warehouse lease in Lloydminster, Alberta. The new facilities were required as our other facilities lease expired and to support our growing Powerwave well stimulation business. The office lease has a commencement date of July 1, 2012 and a five (5) year term expiring on June 30, 2017. The balance of the future commitment in base rental payments is \$406,875.

The Company is of the opinion that its working capital position of \$9,689,214 as at November 30, 2014 is sufficient to cover its current commitments and operations for the forthcoming fiscal year. It is also anticipated that internally generated cash from operations will continue to increase as our Company's core Technologies continue to be commercialized and inducements and incentives decrease. As such Wavefront does not, currently, foresee any need for equity or debt financing, although it may consider future financings based on expected need to finance Powerwave tools, working capital, or acquisitions. As our Company moves forward it will also consider debt financing of its Powerwave tools to better match the assets' life and revenue stream with the financing sources. Any such financing will be dependent on Wavefront's credit rating, quality of licensing contracts, etc.

All future expenditures and investments in capital assets and projects will be governed by the Company's working capital position throughout the year.

### OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.



## Management's Discussion and Analysis of Financial Condition and Results of Operations

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### TRANSACTIONS WITH RELATED PARTIES

#### *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 year, the Company recorded \$16,769 (November 30, 2013 - \$15,597) in consulting expense, with \$nil (November 30, 2013 - \$nil) included in accounts payable.

### PROPOSED TRANSACTIONS

At the time of this report the Company has no undisclosed proposed transactions.

### RISK AND UNCERTAINTIES

The Company's business risks are the same as disclosed in its annual MD&A issued for the year ended August 31, 2014.

### ENVIRONMENTAL RISK

The Company's environmental risks are the same as disclosed in its annual MD&A issued for the year ended August 31, 2014.

### CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Company's critical accounting policies and estimates are the same as disclosed in its annual MD&A issued for the year ended August 31, 2014.

### CHANGES IN ACCOUNTING POLICIES

The changes in accounting policies are disclosed in Note 2, "Statement of Compliance", of the Unaudited Interim Condensed Consolidated Financial Statements for the period ended November 30, 2014.

### FINANCIAL AND OTHER INSTRUMENTS

Wavefront's significant financial and other instruments consist of accounts receivable, accounts payable and accrued liabilities and interest bearing obligations such as its operating line, amounts due to shareholders, and other amounts that will result in future cash outlays.

#### **Credit Risk**

Credit risk arises from the potential that a counterparty will fail to perform its obligations. Wavefront's financial instruments that are exposed to concentrations of credit risk consist primarily of accounts receivable and non-participation amounts due. Concentrations of credit risk with respect to accounts receivable are limited as the majority of transactions are with large publicly traded corporations or government organizations dispersed across geographic areas. Credit risk, with respect to accounts receivables in Canada and the United States, is also limited due to Wavefront's credit evaluation and cash management processes.



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### Foreign currency risk

Wavefront is exposed to currency risks as a result of its export to foreign jurisdictions of goods produced in Canada or services provided from Canada, and the operational expenses and revenue of foreign operations. These risks are partially covered by purchases of goods and services in the foreign currency. Wavefront does not use derivative instruments to reduce its exposure to foreign currency risk.

### Fair value of financial instruments

The carrying value of Wavefront's financial instruments approximates their fair value. The estimated fair value approximates the amount for which the financial instruments could currently be exchanged in an arm's length transaction between willing parties who are under no compulsion to act. Certain financial instruments lack an available trading market; therefore, fair value amounts should not be interpreted as being necessarily realizable in an immediate settlement of the instrument.

## SUPPLEMENTARY INFORMATION

### SUMMARY OF QUARTERLY RESULTS AND LOSS PER SHARE

The following tables sets forth selected data derived from our unaudited condensed consolidated interim financial statements for each of the eight most recently completed quarters. This information should be read in conjunction with the applicable interim unaudited and annual audited financial statements and related notes thereto.

	1st Qtr Nov 30'14	4th Qtr Aug 31 '14	3rd Qtr May 31 '14	2nd Qtr Feb 28 '14
<b>Fiscal 2014</b>				
Revenue	\$ 1,493,590	\$ 1,486,805	\$ 1,499,056	\$ 1,247,048
Net Loss	\$ (2,716,682)	\$ (1,005,009)	\$ (2,276,241)	\$ (1,136,653)
Basic and diluted loss per share	\$ (0.033)	\$ (0.012)	\$ (0.027)	\$ (0.014)
Common shares outstanding				
Weighted average shares outstanding	82,956,240	82,956,240	82,956,240	82,956,240

Note 1: The third quarter ended May 31, 2014 included a non-cash impairment expense of \$1,338,584. Net loss prior to impairment was \$937,657 or \$0.011 per share.

Note 2: The first quarter ended November 30, 2014 included a non-cash impairment expense of \$2,054,590. Net loss prior to impairment was \$678,672 or \$0.008 per share.

	1st Qtr Nov 30'13	4th Qtr Aug 31 '13	3rd Qtr May 31 '13	2nd Qtr Feb 28 '13
Revenue	\$ 1,646,640	\$ 1,693,856	\$ 1,659,021	\$ 1,027,488
Net Loss	\$ (792,404)	\$ (1,409,644)	\$ (968,055)	\$ (1,364,460)
Basic and diluted loss per share	\$ (0.009)	\$ (0.017)	\$ (0.012)	\$ (0.016)
Common shares outstanding				
Weighted average shares outstanding	82,956,240	82,956,240	82,956,240	82,956,240

Note 3: This Financial data has been prepared in accordance with IFRS

Note 4: All amounts in Canadian dollars except share data



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### DESCRIPTION OF SHARE CAPITAL

As at November 30, 2014, Wavefront's share capital consisted of the following:

<b>Common shares</b>	
Authorized:	unlimited
Issued and outstanding:	
Free trading	82,956,240
Convertible into common shares	
Incentive stock options	<u>2,285,000</u>
	<u>2,285,000</u>
Fully diluted share capital:	<u>85,241,240</u>

As at January 28, 2015, Wavefront's number of issued and outstanding shares is 82,956,240.

### Market for Securities

The common shares of Wavefront Technology Solutions Inc. are listed on the TSX Venture Exchange under the symbol of WEE. The Company's shares also trade on International OTCQX under the symbol WFTSF.

### Options granted during the period

The Company maintains a Stock Option Plan under which it may grant options for up to 10,771,558 shares of the Company at an exercise price equal to or greater than the market price of the Company's stock at the date of grant. All stock options awarded are exercisable for a period of five years and vest in equal tranches at three (3) month intervals over a period of eighteen months.

<b>Date of Grant</b>	<b>Number of Shares</b>	<b>Optionee</b>	<b>Exercise Price</b>	<b>Expiry Date</b>
October 8, 2014	<u>100,000</u>	Investor Relations Consultant	\$ 0.250	October 8, 2019
	100,000			



## Management's Discussion and Analysis of Financial Condition and Results of Operations

### Options outstanding

As at November 30, 2014

Date Granted	Expiry Date	Number of Incentive Stock Options	Exercise Price per Share \$
October 8, 2014	October 8, 2019	100,000	0.250
February 21, 2014	February 21, 2019	825,000	0.315
February 22, 2013	February 22, 2018	595,000	0.38
November 12, 2013	November 12, 2018	75,000	0.41
September 28, 2011	September 28, 2016	55,000	0.66
December 20, 2011	December 20, 2016	75,000	0.73
September 14, 2010	September 14, 2015	530,000	0.97
July 14, 2010	July 14, 2015	30,000	1.45
		<u>2,285,000</u>	

### CONTROLS AND PROCEDURES

Under National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings* ("NI 52-109"), the Company, as a "Venture Issuer" files on an annual basis Form 52-109FV1, the "*Certificate of annual filings – venture issuer basic certificate*" (the "**Annual Form**") which does not include representations relating to the establishment and maintenance of disclosure controls and procedures ("**DC&P**") and internal controls over financial reporting ("**ICFR**"), as defined in NI 52-109. In particular, the certifying officers filing the Annual Form are not making any representations relating to the establishment and maintenance of:

- i) controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and,
- ii) a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP.

However, the Company's Management, and its certifying officers on the Annual Form are responsible for ensuring that processes are in place to provide them with sufficient knowledge to support the representations they are making in that Annual Form. The Annual Form does contain representations which confirms that management has established processes, which are in place to provide the certifying officers with sufficient knowledge to support their written representations that they have exercised reasonable diligence that (i) the audited annual financial statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of and for the periods presented by the unaudited interim financial statements and that (ii) the audited annual financial statements fairly present in all material respects the financial condition, results of operations and cash flows of the Company, as of the date of and for the periods presented by the audited financial statements.

The Company's certifying officers of the Annual Form are responsible for ensuring that processes are in place to provide them with sufficient knowledge to support the representations they are making in that certificate. However, the reader should be aware that inherent limitations on the ability of the certifying officers to design and implement,

## Management's Discussion and Analysis of Financial Condition and Results of Operations

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on a cost effective basis, DC&P and ICFR for the Company as defined in NI 52-109, may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation, including this MD&A.

### FORWARD-LOOKING INFORMATION

*Certain statements contained herein regarding Wavefront and its operations constitute "forward-looking statements" within the meaning of Canadian securities laws and the United States Private Securities Litigation Reform Act of 1995. All statements that are not historical or current facts, including without limitation statements regarding future estimates, plans, objectives, assumptions or expectations or future performance of Wavefront and or any of its subsidiaries, as described in this MD&A, are "forward-looking statements". Forward-looking information can be identified by the use of the future tense or other forward-looking words such as "believe", "expect", "anticipate", "intend", "should", "may", "could", "would", "objective" "forecast", "position", "intend" or the negative of those terms or other variations of them or comparable terminology. Examples of such forward-looking information in this document include, but are not limited to statements with respect to the following, each of which is subject to significant risks and uncertainties and is based on a number of assumptions that may prove to be incorrect:*

- under the heading "Outlook" the outlook for Wavefront's business, its plans to capitalize on new business, expectations regarding the new business model and discussions of how goals will be achieved;*
- under the heading "Overall Results from Operations", Wavefront's expectations for future international revenues, expectations once Powerwave is fully commercialized, the belief that international Powerwave well stimulation revenues will grow in 2015, the near future plans of clients, expectations for revenue patterns, expectations regarding international marketing costs and discussions of goals relating to expansion of client base and the expectation that the commissions program will lead to future international EOR revenue;*
- under the heading "Liquidity and Capital Resources", Wavefront's beliefs about its working capital position and cash flow break even, its expectations about cash inflows and investment and its use of cash; and*
- under the heading "Contractual Commitments", Wavefront's beliefs about working capital sufficiency and potential sources of financing.*

*We provide this forward-looking information for Wavefront's business in order to describe the management expectations and targets by which Wavefront measures its success and to assist Wavefront shareholders in understanding Wavefront's financial position as at and for the periods ended on the dates presented in this report. Readers are cautioned that this information may not be appropriate for other purposes. **We caution that such "forward-looking statements" involve known and unknown risks and uncertainties that could cause actual results and future events to differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking information.** Such material factors include fluctuations in the acceptance rates of Wavefront's Powerwave and Primawave Processes, demand for products and services, fluctuations in the market for oil and gas related products and services, the ability of Wavefront to attract and maintain key personnel, technology changes, volatility in commodity pricing, client operational and scheduling difficulties, client infrastructure limitations and budgetary priorities, direct and indirect*



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*compensation and pricing pressure from customers, global political and economic conditions. For a more detailed description of these risks, and of other risks to which Wavefront is subject, please see the "Risks and Uncertainties" section in this MD&A. In determining Wavefront's forward-looking statements, Wavefront considers material factors including assumptions and expectations contained in: the "Technology Adoption" section in the annual MD&A for the year ended August 31, 2014, incorporated herein by reference, as well as expectations regarding customer demand and adoption rates for Wavefront's products; commodity prices, interest and foreign exchange rates; accounting and impairment estimates; and the availability and cost of inputs, labour and services, patent, technology and competitive risk. These material risk factors and material assumptions are not intended to represent a complete list of the factors that could affect Wavefront; please see other factors that are described in further detail in Wavefront's continuous disclosure filings, from time to time, and available on SEDAR at [www.sedar.com](http://www.sedar.com).*

*The forward-looking statements contained herein represent Wavefront's expectations at January 28, 2015, and, accordingly are subject to change after such date. Except as may be required by law, Wavefront does not undertake to update any forward-looking statement, whether written or verbal, that may be made from time to time.*

### **ADDITIONAL INFORMATION**

Additional information regarding Wavefront Technology Solutions Inc. can be found on System for the Electronic Document Analysis and Retrieval ("SEDAR" at [www.sedar.com](http://www.sedar.com)).