

WAVEFRONT

Wavefront Technology Solutions Inc.

- Annual & Fourth
- Quarter Report For The
- Fiscal Year & Period Ended
- August 31, 2018



The following discussion and analysis of financial results should be read in conjunction with the audited consolidated financial statements and the accompanying notes for the years ended August 31, 2018 and 2017 and is based on information available to December 30, 2018. Additional information on Wavefront Technology Solutions Inc.'s (the "Company" or "Wavefront") is available on SEDAR at www.sedar.com.



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

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 International Financial Reporting Standard's ("IFRS"). The MD&A primarily compares the audited financial results for the year ended and fourth quarter ended August 31, 2018 to August 31, 2017. 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 IFRS financial records (also see section titled "Controls and Procedures" page 26). The financial information presented throughout this MD&A should be read in conjunction with consolidated financial statements.

Unless otherwise indicated, all amounts shown below are in Canadian dollars. Additional information regarding our Company is available on SEDAR, 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.

Deloitte LLP, an independent firm of Chartered Accountants, has been engaged, as approved by a vote of shareholders at the Company's most recent annual general meeting, as external auditors of the Company. The Independent Auditors' Report to the shareholders, which describes the scope of their examination and expresses their opinion, is presented in the consolidated financial statements.

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

NON-IFRS MEASURES

The Company uses both IFRS, and additional and non-IFRS measures to make strategic decisions, to set targets and use in operating activities, and believes that these non-IFRS measures provide useful supplemental information to investors. "Working capital", "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;
- Other technologies revenue consists of Primawave and Performance Drilling revenues. Other technologies revenues are non-IFRS measures with the most comparable IFRS measure being revenues;
- 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; and,
- EBITDA, an acronym for earnings before interest, taxes, depreciation, and amortization, is calculated by adding back all interest, tax, depreciation and amortization to net income (loss). EBITDA is an additional IFRS measure with the most comparable IFRS measure being net income (loss).



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

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.

OVERVIEW OF BUSINESS

As an Oil Field Service ("OFS") provider Wavefront is a global leader in the advancement of dynamic fluid injection technology for oil and gas well stimulation and Improved/Enhanced Oil ("IOR/EOR") Recovery. Wavefront's core technology, marketed under the brand name, "Powerwave™", can be viewed as industry altering and has proven to increase oil and gas production rates; decrease oil production decline rates; and, reduce well stimulation chemical costs while also increasing post-stimulation production or injection sustainability rates for exploration and production companies ("E&P's"). Wavefront operates in the global market place dealing directly with E&P's and through an international network of distributors and agents. Powerwave is also a potential disruptive technology to OFS providers as Powerwave's benefits to E&P's has provided Wavefront distributors a competitive advantages and allows them to gain or maintain market share and sell other bundled services. Powerwave may also have the effect of reducing traditional oilfield chemicals sales volumes as the technology overcomes certain geological constraints normally requiring specialized chemicals.

Powerwave is marketed in two primary areas:

- i. Well stimulation; and,
- ii. IOR/EOR.

A well stimulation is an operation performed on a well to restore or enhance productivity or improve injection. In most instances a chemical is pumped into the well to stimulate a producing or injection 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 fill.

IOR/EOR targets stranded or bypassed oil in reservoir which is very difficult to produce due to various physical limitations. The common theme in all IOR/EOR (except acoustic or electromagnetic) projects is the injection of a fluid to mobilize bypassed oil.

With a focus on the Middle East region Wavefront employs both selective and exclusive distribution channels for its Powerwave technology in the international oil and gas market place. In certain jurisdictions Wavefront's international marketing partners are reputable coiled tubing OFS providers who can effectively market and deliver the value added benefits Powerwave brings to well stimulation. In other instances Wavefront retains local agents to market directly to E&P customers or undertakes all marketing and sales directly itself. In all cases Wavefront provides technical and marketing support with the goal of maximizing gross profitability on Powerwave use.

OUTLOOK

At present there are some remarkable geopolitical dynamics currently setting the tone around global oil production activities and world oil prices. United States crude oil production has increased sharply, mainly from the Permian Basin, where short cycle times associated with drilling activity and flush production from new wells in unconventional resources has the Permian Basin in Texas producing nearly 3 million barrels of oil per day putting it in direct competition with Kuwait but still behind Saudi Arabia on daily output. Such production increases coupled with recent production upticks in Saudi Arabia and Russia meant to fill the gap in Iranian oil market losses related to economic sanctions which

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

did not fully materialize has placed downward pressure on the price of both West Texas Intermediate ("WTI") and Brent crude as supply is currently slightly higher than demand. Trade tariff issues of calendar 2018 have played a significant role in slowing economic growth in major industrialized countries such as China and India which have further negatively impacted overall oil demand. In all, recent WTI and Brent oil prices have hit lows not seen since 2017 and moving forward it is believed oil prices will continue to be strongly influenced by the geopolitical winds and as such may strongly influence calendar 2019 capital and discretionary spending of E&P companies.

At present the Company, through its distribution network, has recurring well stimulation activities in the Kingdom of Saudi Arabia; Kuwait; Oman; Algeria; India; Colombia; Canada; and, the United States. Anticipated, new well stimulation activity is expected in fiscal 2019 in Qatar; United Arab Emirates; and, Norway. Though Wavefront continues to be upbeat about future revenue generation the Company may, with an on-going assessment of oil prices, curtail advancing its global marketing strategy to new jurisdictions in favour of greater focus in existing areas served to grow near term revenue opportunity while controlling expenses. Though the Middle East was favourable to Wavefront in fiscal 2018, much greater emphasis will be placed on increasing the Company's footprint in the United States in fiscal 2019 as overall oil and gas activity levels in the Permian Basin are anticipated to grow into the foreseeable future if WTI oil prices remain above US \$45 per barrel. The Company believes that a protracted period of WTI oil prices below US \$45 per barrel will see E&P companies shutter drilling activities and par down stimulation work to a maintenance mode.

Wavefront's projected activities may have associated recurring costs which will be carefully monitored and controlled relative to revenue generation and Management will continue to be highly focused on overall cost discipline across all functional areas of the organization.

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 and any bundling or cross use thereof, types of customers, operating segment served within the industry and similarity of segments with other OFS companies, quantitative and qualitative thresholds, etc.) and geographic areas, in identifying its reportable segment. The operating segment 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 margins¹ by product line, as it believes this additional supplemental information is useful to investors with respect to the development of the business.

¹ Gross profit margin is gross profit divided by gross revenue. Gross profit margin is a non-IFRS measure with no comparable IFRS measure.



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

In fiscal 2018, Wavefront's total revenue amounted to \$3,215,029, an increase of \$1,047,489 or 48.3%; compared to \$2,167,540 in fiscal 2017 and are principally due to increases in Powerwave stimulation revenues, which increased by \$1,526,094 or 119.2% to \$2,805,952. Moreover, the Powerwave stimulation increase was due to increased market penetration of Powerwave stimulations particularly in the Middle East which had the largest revenue impact, increasing by \$1,671,161 or 369.0% to \$2,124,026. Offsetting the increases in Powerwave stimulations in the Middle East were declines in North American stimulations of \$354,448.

During the fiscal year 2018, the Company began to see the results of its continuing efforts to establish distribution channels beyond selling directly to E&Ps by generating \$2,664,274 in revenue or 82.9% (2017 - \$659,388 in revenue or 30.4%) of revenue through distributor partners beyond the Canadian and USA borders. The move in sales channels has increased gross profit margins¹ in fiscal 2018 were 82.1% (2017 - 68.6%). The move within the Powerwave product mix to focus on Powerwave stimulations, with a shorter sales cycle, has also strengthened the overall gross profit margins². Powerwave stimulation gross profits approximated \$2,408,876 or 86.3% of Powerwave stimulation revenues for fiscal 2018.

The increases in consolidated revenues were despite the disposition of a certain product line, including along with inventory at various locations related to the tubing pump and bailer cash generating unit ("CGU") and the assignment of the Lloydminster location lease effective February 28, 2018. Although the decision to dispose of the tubing pump and bailer CGU means the Company would no longer recognize revenues associated with that product line, it allows for a more focused strategy on Powerwave stimulations that have more favourable profit margins, as well as benefiting from functional expense reductions.

By leveraging of Wavefront's distributor's reach and focusing on Powerwave stimulation, the Company has also been able to decrease expenses, excluding costs of goods sold and the loss on Disposition of property, plant and equipment and inventory of \$258,017 (noted below), by \$1,026,324 from the comparative year. Net losses, as a result, for the year ended August 31, 2018 decreased by \$1,919,323 to \$1,790,771 (or net loss per share of \$0.021), compared to the comparative year's reported net a loss of \$3,710,094 (or net loss per share of \$0.044).

Excluding the loss on Disposition of property, plant and equipment and inventory of \$258,017 (noted below), and non-cash, one-time, full allowance for doubtful accounts of \$431,842 (noted below) the adjusted net loss³ for the year ended August 31, 2018 decreased by \$2,609,182 or 70.3% to \$1,100,912 (or \$0.013 per share), compared to \$3,710,094 (or \$0.044 per share) for the fiscal year ended August 31, 2017.

Fourth quarter 2018 gross revenues (i.e., three months ended August 31, 2018) amounted to \$956,626, an increase of \$429,189 or 81.4% from the comparative fourth quarter (i.e., three months ended August 31, 2017) revenues of \$527,437. Of the revenues for the reporting quarter, \$889,655 relates to Powerwave stimulations, with \$748,460 of those revenues being derived from the Middle East, an increase of \$644,707 or 621.4% over the comparative quarter.

During the fourth quarter 2018, the Company incurred a non-cash, one-time, write-off for of \$431,842 against one client's aged accounts over 120 days, which is consistent with applicable accounting standards. Over the past year the client had led the Company to believe, through its actions and documentation indicating payment was approved and forthcoming, that amounts outstanding were accurate, due and payable and those such amounts would be paid prior to

² 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

³ Adjusted net loss is the net loss, less the loss on disposal on property, plant and equipment, and inventory. Adjusted net loss is a non-IFRS term with no comparable measure.



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

Wavefront's fiscal year end but no money was paid requiring the Company to provide for a non-cash, one-time, write-off for doubtful account of \$431,842. The write-off follows an on-going, aggressive, diligent and verifiable action plan by Wavefront Management and Board of Directors for many months to verify and secure payment from a historically valued and reliable Permian Basin-based client for well stimulation work performed by Wavefront and accepted by the client's operations manager. Wavefront has appropriately and consistently asserted that payment is and has been due for many months. Our accounting treatment and disclosure follows a series of documented and substantive representations made to Wavefront by authorized corporate representatives of the client that payment was owed and would be made on dates set by the client in agreed to amounts. The failure of the client to deliver on their multiple and on-going representations prior to the audit completion date has precipitated the write-off.

It is the intent of the Company's Management to continue to aggressively pursue and secure the outstanding amount owing including interest, to Wavefront. Should any receipt of payment occur, Wavefront will record a bad debt recovery, i.e., an expense credit, reversing the bad debt expense, and will accordingly disclose.

Despite the non-cash, one-time, full allowance for doubtful accounts, the Company was able to reduce expenses by \$112,566. The net loss for the fourth quarter amounted to \$497,456 (or \$0.006 per share), compared to the comparative quarters net loss of \$989,465 (or net loss per share of \$0.012). Excluding the non-cash, one-time, full allowance for doubtful accounts of \$431,842 the adjusted net loss³ for the fourth quarter ended August 31, 2018 decreased by \$923,851 or 93.4% to \$65,614 (or \$0.0008 per share), compared to \$989,465 (or \$0.012 per share) for the comparative quarter ended August 31, 2017.

In the fourth quarter 2018, the Company was able to generate cash flows from operations of \$194,450, an increase of \$605,918 over the comparative quarter. The fourth quarter's cash flows from operations of \$194,450 are also an increase of \$131,163 over that generated in the prior quarter (i.e., three months ended May 31, 2018).

Impairment

As at August 31, 2018, the Company assessed impairment indicators for the Company's Powerwave CGU and concluded that no indicators of impairment were present.

CONSOLIDATED RESULTS – FISCAL YEAR ENDED AUGUST 31, 2018

Revenues

Revenues for the fiscal year ended August 31, 2018 were \$3,215,029, increasing by \$1,047,489 or 48.3% over the comparative fiscal year that recognized revenues of \$2,167,540.

For the year ended August 31, 2018 Powerwave revenues related to well stimulations increased by \$1,515,184 or 118.4% to \$2,791,042 compared to \$1,279,858 in the comparative year. The increases in Powerwave stimulation revenues over the comparative period principally relate to an increase of revenues of approximately \$1,671,161 or 369.0% to \$2,124,026 associated with Middle East well Powerwave stimulation activity. These increases are a result of on-going marketing efforts with distributors and agents in the Middle East and recurring orders related to Powerwave custom stimulation programs. Powerwave stimulation revenues in North America remain below historical performance declining by \$369,358 over the comparative period to \$384,832.

For the year ended August 31, 2018, total revenue related to Powerwave IOR/EOR projects was \$292,330 compared to \$397,119, in the comparative year. The current fiscal year includes a single Powerwave IOR/EOR project in Oman

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

where recognized revenues totaled \$205,028 and are recognized on a per well basis over the 12 month licensing term. Other IOR/EOR projects in the current fiscal year included the sale of selective injective valves for a Powerwave IOR/EOR project and recurring Powerwave licensing revenues in Latin America (i.e., \$87,302). The current Powerwave IOR/EOR project in Oman is for eight systems with an anticipated translated total net value of approximately \$510,160 (i.e., translated at the current periods average exchange rate), with anticipated profits of \$123,300. This project's current period revenues however, reflect the installation of only six systems that were installed at various dates throughout the reporting period. Total expenses for the Powerwave IOR/EOR project in Oman are currently anticipated to approximate \$386,860.

The reduction in IOR/EOR project revenue relates: i) to the conclusion of all prior year's international Powerwave IOR/EOR projects, and ii) the past downturn in oil pricing that saw deep capital and discretionary spending cuts in energy industry activity, especially in North America, which has delayed and lengthened the sales cycle of many IOR/EOR projects. Wavefront will continue to place a strong focus on the more immediate revenue generating opportunities through Powerwave stimulation applications that have a shorter sales cycles and healthy gross profit margins.

Geographically, \$516,489 (2017 - \$1,210,327) in revenue was generated in North America, \$2,329,054 (2017 - \$487,291) in the Middle East, and \$369,486 (2017 - \$469,922) in other international geographic regions. Geographic revenues are more specifically described as follows:

North America: Revenues in North America decreased by \$693,838 to \$516,489 (2017 - \$1,210,327). Powerwave stimulation revenues in North America totalled \$384,832 (2017 - \$754,190); Other Technology revenues totalled \$35,207 (2017 - \$39,432); and tubing pump and bailer revenues totalled \$96,450 (2017 - \$416,705).

Middle East: Revenues in the Middle East increased by \$1,841,763 or 378.0% to \$2,329,054 (2017 - \$487,291). Powerwave stimulation revenues in the Middle East increased by \$1,671,161 or 369.0% to \$2,124,026 (2017 - \$452,865). Powerwave IOR/EOR projects revenues totalled \$205,028 (2017 - \$nil); and Other Technology revenues totalled \$nil (2017 - \$34,426).

Other International: Revenues outside of North America and the Middle East decreased by \$100,436 to \$369,486 (2017 - \$469,922). Powerwave stimulation revenues in other internationally markets increased \$188,443 or 201.0% to \$282,184 (2017 - \$72,803); and Powerwave IOR/EOR projects revenues totalled \$87,302 (2017 - \$397,119).

Costs of Goods Sold

Under IFRS cost of sales includes direct labour, wage benefits and associated stock option benefits, consumable (i.e., inventory) parts, third party installation costs of Powerwave, Primawave, tubing pump and bailer product lines.

Any losses related to Powerwave IOR/EOR projects are immediately recognized and have the effect of increasing direct cost for the period in which they occur or are known to occur.

Cost of sales decreased by \$106,826 to \$574,216 (or 17.9% of revenues) compared to \$681,042 (or 31.4% of revenues) for the comparative reporting period. While costs of sales are dependent upon the product mix (i.e., the relative mix of Powerwave IOR/EOR; Powerwave stimulation, Performance Drilling, Primawave, and tubing pumps and bailers); costs are more a function of Wavefront's distribution channels. Working through distribution partners, that are larger and



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

entrenched OFS providers in their local markets, Wavefront revenues amounted to \$2,664,274, or 82.9% (2017 - \$659,388 or 30.4%) of total revenues. Whereas working directly with E&P's Wavefront revenues amounted to \$550,755 or 17.1% (2017 - \$1,616,785 or 74.6%) of total revenues and require Wavefront tools, personnel, consumable inventory, and third parties to generate those revenues. Costs of sales related to revenues generated through distributors are lower as they are limited to the provision of Powerwave tools and tool parts to the distributor, technology and tools support, provision of consumable inventory and modeling.

Costs of sales, relative to revenues, were also positively impacted by operational rights to Powerwave in Kuwait for a guaranteed minimum aggregate yearly fee that have little direct costs.

Other Expenses

Other expenses, excluding costs of sale, for the year ended August 31, 2018, decreased by \$768,307 to \$4,456,704, compared to \$5,225,011 in fiscal 2017. Excluding costs of sales, the overall decrease in expenses of \$768,307 principally relates to the following:

- i) General and administrative expenses decreased by \$742,644 or 19.0% (August 31, 2018 - \$3,163,909; August 31, 2017 - \$3,906,553). The change in general and administrative expenses was principally a result of the following:
 - Professional fees decreased by \$609,464 to \$311,972. The decrease of professional fees principally relates to a prior period patent law suit that Wavefront filed against Impact Technology Systems AS, American Resources Inc., and, MMB Oil, LLC (together the "Defendants"). The Company agreed to a proposed settlement of the patent law suit whereby the Defendants agreed to an injunction in specific jurisdictions not to practice until the end of the term of the patent for which Wavefront initiated the patent infringement law suit. The current period's professional fees relate to yearly compliance and audit accruals and ongoing professional advice pertaining to commercial and international operations.
 - Consulting fees decreased by \$199,591 to \$308,558, and principally relate to the mix in the number and types of engagements of reservoir engineering consultants and representatives in Latin America and the Middle East, which saw expenses decline by approximately \$143,555. In addition, the comparative year also included \$52,500 in expenses related to the engagement of external consultants to assess and review certain strategic alternatives.
 - Share based payments also decreased by \$196,274 to \$66,827, relates to the portion of stock options allocated to general and administrative functional expense category, and the valuation and expensing of 1,975,000 and 70,000 incentive stock options issued in the prior years to employees and insiders in the comparative period only. The future unamortized expense of all options to be allocated general and administrative expenses approximated \$31,726; which includes the expensing of 200,000 stock options recently issued to a firm the Company engaged to assist in investment relations.
 - Office expenses decreased by \$114,272 to \$625,233. The decrease in office expenses principally relate to restructuring of the Company given the focus on Powerwave stimulations and the Disposition (see below) of the tubing pump and bailer tools and certain other related assets.
 - Vehicle expenses decreased by \$44,452 to \$87,041. The decrease in vehicle expense principally relates given the focus on increased sales generation through distributors, the focus on Powerwave

Management’s Discussion and Analysis of Financial Condition and Results of Operations

stimulations and the Disposition of the tubing pump and bailer tools and certain other related assets, the latter of which is more field and vehicle intensive.

- Offsetting the above decreases, there was an increase in bad debts of \$352,525 to \$417,230 principally as a result of the Company providing for a full write-off for a non-cash, one-time, for a doubtful account of \$431,842 charged against one client’s aged accounts over 120 days. Over the past year the client had lead the Company to believe, through its actions and documentation, that payment was approved, forthcoming, and that amounts outstanding were accurate, due and payable and those amounts would be paid prior to Wavefront’s fiscal year end. Payment by the client was never made prior to year end requiring the non cash bad debt. Excluding the non-cash, one-time, full allowance for doubtful accounts of \$431,842 bad debt expense would have declined by \$79,317 to an expense credit of \$14,612, and other expenses, excluding costs of good sales, would have declined by \$1,200,149 to \$4,024,862 over the comparative year.

In addition, the Company also experienced increases in wage and benefits of \$27,608 to \$1,033,810, increases in repair and maintenance expenses of \$25,844 to \$137,217, and increases in public company and listing fees of \$15,304 to \$175,891. The increases in wage and wage benefits is a function of decrease in allocations to other functional expense categories, in particular costs of goods sold and sales and marketing. Also included in the wage and wage benefits is variable compensation of \$120,000 that was only provided for in the current fiscal year. The increase in repairs and maintenance expenses principally relate to general tool repair and maintenance that was not directly related to revenue generating jobs and such expenses are expected to decline given the Disposition of the tubing pumps and bailer tools and certain other related assets. The increase in public company and listing fees principally relate to increases in listing fees, which is tied to the Company’s calculated market capitalization, transfer agent and filing fees, increases in news release dissemination fees and the hiring of an external investors relation firm.

- ii) Consistent with the Company’s shift in focus to Powerwave stimulations that have more favourable profit margins and as a result of the growing trend of unprofitable financial results related to the tubing pump and bailer CGU, effective February 28, 2018, the Company disposed certain assets including: tubing pump and bailer tools at various locations along with certain other property plant and equipment, and inventory. Together with the disposal of property, plant and equipment, and inventory, the purchaser was also assigned and assumed the Lloydminster field office lease.

Total consideration for the Disposition was \$75,000, with an offsetting recorded net loss on disposal of the property plant and equipment, and inventory of \$258,017.

Summary of Disposition	Tools and equipment	Automotive and office equipment	Leasehold improvements	Total
Cost	407,714	73,803	271,728	753,245
Accumulated depreciation	(311,308)	(58,512)	(154,872)	(524,693)
Net book value	96,406	15,291	116,856	228,552
Inventory				104,465
Proceeds				(75,000)
Net loss				(258,017)

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

Excluding the loss on the Disposition of property, plant and equipment and inventory of \$258,017, the aforementioned non-cash, one-time, full allowance for doubtful accounts of \$431,842, and not including costs of goods sold, expenses for the year ended August 31, 2018 decreased by \$1,458,166 or 27.9% to \$3,766,845, compared to \$5,225,011 for the year ended August 31, 2017.

The 12 months prior to the effective date of the Disposition, the base Lloydminster rental expense amounted to \$152,200, whereas base wages and field compensation paid to support the tubing pumps and bailers approximated \$275,846 and employee expenses were \$26,951, for a total of \$454,997, not including other location related or CGU direct or indirect expenses. As a result, the Company believes that the Disposition has and may continue to reduce overall future period expenses.

- iii) Selling and marketing expenses decreased by \$140,230 to \$647,141. The decrease includes decreases in travel related expenses of \$44,301, a decrease of accommodation expenses of \$35,747, a reduction in the allocation of stock option expense by \$38,133, decreases in ground transportation and meals and entertainment expense by \$6,716 and \$14,917, respectively, while fully built up wage expense decreased by \$18,619, as the Company was active in supporting sales efforts of distributors. These decreases were offset by decreases in marketing and advertising of \$18,200.
- iv) Amortization and depreciation expense decreased by \$109,481 to \$269,580 from the comparative year. The lower amortization and depreciation expense is a result of prior period non-cash impairment charges and the aforementioned Disposition of property, plant and equipment and inventory of tubing pumps and bailer tools and the associated assignment of the Lloydminster lease.
- v) Research and development expense decreased by \$33,969 to \$118,057. Of the wage expense within research and development \$77,937 relates to labour of the Company's physicist and reservoir engineer that support our Powerwave product line.

Net Finance Section of Income

Financing costs totalled \$6,757 (2017 - \$18,553). Finance costs included interest expenses totalling \$6,757 (2017 - \$1,715) and a recognized foreign exchange loss in the comparative year of \$16,838.

Financing income totalled \$31,877 compared to \$46,972 for the comparative year. Financing income relates to interest income from aged accounts, and income generated by investing unrestricted cash in instruments that mature in one year or less. Interest income includes interest earned for the fiscal year of \$20,794 (2017 - \$46,972), and foreign exchange gain of \$11,083 in the current fiscal year only.

Operating Cash Flows

The following table sets out the cash used in operations for the years ended August 31, 2018 and 2017:



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

	As at August 31, 2018	As at August 31, 2017
Net loss	\$ (1,790,771)	\$ (3,710,094)
Changes to loss not including cash		
Amortization and depreciation	269,580	379,061
Loss on disposal of property, plant and equipment, and inventory	264,096	32,520
Share-based payments	73,721	338,629
Interest expense	6,757	1,715
Impact of foreign translation	(2,208)	(18,808)
Change in prepaid expenses	(225,222)	10,269
Change in trade and other payables	(157,641)	477,651
Change in deposits	(20,188)	1,209
Change in inventory	(10,955)	71,746
Interest paid	(6,757)	(1,715)
Change in trade and other receivables	423,524	(681,639)
Cash used in operating activities	\$ (1,176,064)	\$ (3,099,456)

The Company, in addition to the loss on Disposition of property, plant and equipment and inventory of \$258,017 (as noted above), incurred a loss on disposal of property, plant and equipment of \$6,079 that was classified as costs of sold in the consolidated statement of net loss and comprehensive loss.

Cash used in operating activities were negatively impacted by the net changes in non-cash working capital items (see Liquidity section below).

Net Loss and Comprehensive Loss, and Loss Per Share

The basic and diluted net loss for the year ended August 31, 2018 was \$1,790,771 (\$0.021 per share), compared to \$3,710,094 (\$0.044 per share) in fiscal 2017.

Excluding the loss on Disposition of property, plant and equipment and inventory of \$258,017 and non-cash, one-time, full allowance for doubtful accounts of \$431,842 (both as noted above) the adjusted net loss⁴ for the year ended August 31, 2018 decreased by \$2,609,182 or 70.3% to \$1,100,912 (or \$0.013 per share), compared to \$3,710,094 (or \$0.044 per share) for the fiscal year ended August 31, 2017.

The comprehensive loss of \$1,771,797 for the reporting period was positively impacted by foreign translation gain of \$18,974 on its foreign, wholly-owned, subsidiary in the United States. The comprehensive loss decreased by \$1,964,082 from the comparative year's comprehensive loss of \$3,735,879.

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

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

⁴ Adjusted net loss is the net loss, less the loss on disposal on property, plant and equipment, and inventory. Adjusted net loss is a non-IFRS term with no comparable measure.



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

	<u>As at</u> <u>August 31, 2018</u>	<u>As at</u> <u>August 31, 2017</u>
Net loss	\$ (1,790,771)	\$ (3,710,094)
Items not affecting cash		
Amortization and depreciation	269,580	379,061
Interest and tax expense	6,888	1,979
EBITDA loss	\$ (1,514,303)	\$ (3,329,054)
EBITDA loss per share	\$ (0.018)	\$ (0.040)

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

Excluding the non-cash, one-time losses on Disposition of property, plant and equipment and inventory of \$258,017 and full allowance for doubtful accounts of \$431,842 (both as noted above), the adjusted EBITDA loss⁵ for the year ended August 31, 2018 decreased to \$824,444 (or \$0.010 per share) compared to the EBITDA loss of \$3,329,054 (or \$0.040 per share) for fiscal 2017.

FOURTH QUARTER RESULTS - THREE MONTHS ENDED AUGUST 31, 2018

Revenues

Revenues for the fourth quarter, i.e., the three months ended August 31, 2018 were \$956,626, increasing \$429,189 or 81.4% over the comparative quarter ended August 31, 2017 that recognized revenues of \$527,437.

For the fourth quarter 2018 revenues related to Powerwave stimulations increased by \$573,355 or 181.3% to \$889,655 compared to \$316,300 in the comparative quarter. Powerwave stimulation revenues for the reporting quarter from the Middle East had the most dramatic impact to revenue increasing by \$644,707 or 621.4% to \$748,460. North American stimulation revenues totalling \$104,843 have yet to approach historical norms.

For the fourth quarter 2018 revenues related to Powerwave IOR/EOR projects totalled \$66,971. IOR/EOR projects are principally outside of Canada and are denominated in United States currency. At each reporting date all foreign currency projects are re-valued and translated into Canadian currency. Current exchange rates may impact amounts of international IOR/EOR project revenue recognition.

Geographically, \$104,843 (2017 – \$325,255) in revenue was generated in North America, \$815,431 (2017 - \$103,753) in the Middle East, and \$36,352 (2017 - \$98,429) in other geographic regions. The geographic revenues are more specifically described as follows:

⁵ Adjusted EBITDA loss is adding back all interest, tax, depreciation and amortization to net loss, and adding back the loss on disposal on property, plant and equipment, and inventory, and full allowance for doubtful accounts. EBITDA is an additional IFRS measure with the most comparable IFRS measure being net income (loss), whereas adjusted EBITDA loss is a non-IFRS term with no comparable measure.



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

North America: Revenues in North America decreased by \$220,412 to \$104,843 compared to \$325,255 in comparative quarter. Powerwave stimulation revenues in North America totalled \$104,843 (2017 - \$215,860); Other Technology revenues totalled \$nil (2017 - \$12,666); and tubing pump and bailer revenues totalled \$nil due to the aforementioned disposition (2017 - \$96,729).

Middle East: Revenues in the Middle East increased by \$711,678 or 685.9% to \$815,431 (2017 - \$103,753). Powerwave stimulation revenues in the Middle East increased by \$644,707 or 621.4% to \$748,460 (2017 - \$103,753); and Powerwave IOR/EOR projects revenues totalled \$66,971 (2017 - \$nil).

Other International: Revenues outside of North America and the Middle East decreased by \$62,077 to \$36,352 (2017 - \$98,429) due to expiring IOR/EOR projects. Powerwave stimulation revenues in other international markets totalled \$36,352 (2017 - \$nil); and Powerwave IOR/EOR projects revenues totalled \$nil (2017 - \$98,429).

Costs of Goods Sold

Costs of sales for the fourth quarter, i.e., the three months, ended August 31, 2018 were \$173,076 or 18.1% of revenues (2017 - \$94,920 or 18.0% of revenues).

Other Expenses

Other expenses (i.e., not including costs of goods sold) for the fourth quarter ended August 31, 2018 declined by \$112,566 to \$1,297,290 compared to \$1,409,856 for August 31, 2017. The changes in expenses were principally a result of the following:

- i) Selling and marketing expenses decreased by \$84,793 to \$121,856. The decrease includes decreases in travel related expenses of \$57,316, a decrease of accommodation expenses of \$11,822, a reduction in the allocation of stock option expense by \$5,062, decreases in ground transportation and meals as well as entertainment expenses by \$3,645 and \$3,609, respectively. Fully built-up wage expense decreased by \$11,911 as the Company was active in supporting sales efforts of its distributors. These decreases were offset by decreases in marketing and advertising of \$8,572.
- ii) Amortization and depreciation expenses decreased by \$62,990 to \$56,121 from the comparative quarter. The decrease in amortization and depreciation expense is a result of prior period non-cash impairment charges, and the aforementioned Disposition of property, plant and equipment and inventory of tubing pumps and bailer tools and certain other assets, and the associated assignment of the Lloydminster lease.
- iii) Offsetting the aforementioned decreases, general and administrative expenses increased by \$25,312 (August 31, 2018 - \$1,066,303; August 31, 2017 - \$1,040,991) and principally relate to the following:
 - Professional fees decreased by \$255,092 to \$39,194. The decreases of professional fees principally relate to a prior period patent law suit that Wavefront initiated against the aforementioned Defendants that was subsequently settled in the prior fiscal year. The current quarter's professional fees relate to yearly compliance and audit accruals and ongoing professional advice pertaining to commercial and international operations.



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

- Consulting fees decreased by \$120,148 to \$60,237, and relates to the mix in the number and types of engagement of reservoir engineering consultants and representatives in Latin America and the Middle East, which saw expenses decline by approximately \$47,044. In addition, the comparative year also included \$40,000 in expenses related to the engagement of external consultants to assess and review certain strategic alternatives, and \$23,479 related to investor relations.
- Office expense decreased by \$60,675 to \$125,112, and principally relate to the Disposition of the tubing pumps and bailer assets and the assignment of the Lloydminster office and warehouse lease.
- Public company and listing fees decreased by \$19,352 to \$26,030, and principally relate to the Disposition of the tubing pumps and bailer and related assets and the field work related to that product line.
- Vehicle expenses also decreased by \$16,458 to \$12,922, and principally relate to the Disposition of the tubing pumps and bailer and related assets and the field work related to that product line.
- Share based payments decreased by \$8,118 to \$23,401. The decrease of share based payments relate to the valuation and near full expensing of 1,975,000 and 70,000 incentive stock options (issued in the prior year to employees and insiders) in the comparative and prior quarters. During the prior quarter the Company issued 200,000 stock options to a firm the Company engaged to assist in investment relations, which had a current quarter expense of \$23,401. The valuation of the 200,000 stock options is the only unamortized stock option expense that will be expensed over future periods.
- Repair and maintenance expense decreased by \$5,215 to \$25,694, and principally relates to the Disposition of the tubing pumps and bailer assets.
- Offsetting the above decreases, bad debts increased by \$404,721 to \$417,057, as of and as noted above, the Company allowed for a non-cash, one-time, full allowance for doubtful accounts of \$431,842 charged against one client's aged accounts over 120 days. Excluding the non-cash, one-time, full allowance for doubtful accounts of \$431,842 bad debt expense decreased by \$27,121 to an expense credit of \$14,785, and general and administration expenses decreased by \$406,530 to \$634,461 over the comparative quarter's general and administrative expenses of \$1,040,991.

In addition, the Company also experienced increases in wage and benefits of \$105,915 to \$336,777. The increase of wage and benefit expenses are principally a function of decrease in allocations to other functional expense categories, in particular costs of goods sold and sales and marketing. Included in the wage and wage benefits is variable compensation of \$120,000 that was provided for in the current fiscal period.

- iv) The Company also had a marginal increase in research and development expense of \$9,905 to \$53,010. Of the wage expense within research and development \$23,286 relates to labour of a physicist and reservoir engineer that support the Company's Powerwave product line.

Net Finance Section of Income

Financing cost of \$1,381 (2017 - \$20,312) includes interest expense for the reporting quarter of \$1,381 (2017 - \$115), with a foreign exchange loss \$20,197 in the comparative reporting quarter only.



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

Interest income of \$17,665 (2017 - \$8,186) includes interest earned for the reporting quarter of \$9,164 (2017 - \$8,156), and foreign exchange gain of \$8,501 in the current reporting quarter only.

Operating Cash Flows

The following table sets out the cash used in operations for the fourth quarter ended August 31, 2018 and 2017:

	As at		As at
	August 31, 2018		August 31, 2017
Net Loss	\$ (497,456)	\$	(989,465)
Changes to loss not including cash			
Amortization and depreciation	56,121		119,111
Share-based payments	23,401		43,102
Interest expense	12,133		3,314
Gain on disposal of property, plant and equipment	-		(1,507)
Impact of foreign translation	(14,721)		(1,330)
Change in deposits	(20,188)		-
Change in inventory	(18,531)		47,448
Interest paid	(12,133)		(3,314)
Change in trade and other payables	(4,172)		194,490
Change in prepaid expenses	63,884		35,945
Change in trade and other receivables	606,111		140,738
Cash from (used) in operating activities	\$ 194,449	\$	(411,468)

The net change in cash from (used in) operating activities from the prior quarter (i.e., cash used in operating activities for the three months ended May 31, 2018 of \$63,287) was \$131,163.

Cash used in operating activities has also been negatively impacted by net changes in working capital items (see Liquidity section below).

Net Loss and Comprehensive Loss, and Loss Per Share

The basic and diluted net income for the fourth quarter, i.e., the three months ended August 31, 2018 was \$497,456 (or \$0.006 income per share), a decrease of \$492,009 from the comparative quarter ended August 31, 2017 which reported a net loss of \$989,465 (or \$0.012 loss per share).

Excluding the non-cash, one-time, full allowance for doubtful accounts of \$431,842 the adjusted net loss⁶ for the fourth quarter ended August 31, 2018 decreased by \$923,851 or 93.4% to \$65,614 (or \$0.001 per share), compared to \$989,465 (or \$0.012 per share) for the fourth quarter ended August 31, 2017.

⁶ Adjusted net loss is the net loss, less the loss on disposal on property, plant and equipment, and inventory. Adjusted net loss is a non-IFRS term with no comparable measure.



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

The comprehensive loss of \$500,980 was negatively impacted by foreign translation loss of \$3,524 on its foreign, wholly owned, subsidiary in the United States versus the reported comprehensive loss of \$1,032,595 reported in the comparative reporting quarter ended August 31, 2017.

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

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

	As at August 31, 2018	As at August 28, 2017
Net Loss	\$ (497,456)	\$ (989,465)
Items not affecting cash		
Amortization and depreciation	56,121	119,111
Interest and tax expense	1,237	(415)
EBITDA (loss)	\$ (440,099)	\$ (870,769)
EBITDA (loss) per share	\$ (0.005)	\$ (0.010)

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

Excluding the non-cash, one-time loss on the full allowance for doubtful accounts of \$431,842 (as noted above), the adjusted EBITDA loss⁷ for the fourth quarter ended August 31, 2018 decreased to \$8,257 (\$0.0001 per share) compared to the EBITDA loss of \$870,769 (or \$0.010 per share) for the fourth quarter ended August 31, 2017.

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.

	4th Qtr Aug 31 '18	3rd Qtr May 31 '18	2nd Qtr Feb 28 '18	1st Qtr Nov 30'17	Fiscal 2018
Fiscal 2017					
Revenue	\$ 956,626	\$ 1,125,103	\$ 856,633	\$ 276,667	\$ 3,215,029
Net Income (Loss)	\$ (497,456)	\$ 54,383	\$ (511,095)	\$ (836,603)	\$ (1,790,771)
Basic and diluted loss per share	\$ (0.006)	\$ 0.001	\$ (0.006)	\$ (0.010)	\$ (0.021)
Common shares outstanding					
Weighted average shares outstanding	83,530,011	82,966,588	82,956,240	82,956,240	83,530,011

⁷ Adjusted EBITDA loss is adding back all interest, tax, depreciation and amortization to net loss, and adding back the loss on disposal on property, plant and equipment, and inventory, and full allowance for doubtful accounts. EBITDA is an additional IFRS measure with the most comparable IFRS measure being net income (loss), whereas adjusted EBITDA loss is a non-IFRS term with no comparable measure.



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

	4th Qtr Aug 31 '17	3rd Qtr May 31 '17	2nd Qtr Feb 28 '17	1st Qtr Nov 30'16	Fiscal 2017
Fiscal 2016					
Revenue	\$ 527,437	\$ 525,371	\$ 480,215	\$ 634,517	\$ 2,167,540
Net Loss	\$ (989,465)	\$ (922,141)	\$ (930,635)	\$ (867,853)	\$ (3,710,094)
Basic and diluted loss per share	\$ (0.012)	\$ (0.011)	\$ (0.011)	\$ (0.010)	\$ (0.045)
Common shares outstanding					
Weighted average shares outstanding	82,956,240	82,956,240	82,956,240	82,956,240	82,956,240

Note 1: All amounts in Canadian dollars except share data

LIQUIDITY AND CAPITAL RESOURCES

Assets and Liabilities

Total current assets decreased by \$148,733 to \$3,624,848 from the prior year end. Of the net decrease in current assets, \$143,079 relates to an increase cash resources, which resulted from the closing of a non-brokered private placement ("Private Placement") of \$1,302,400 through the issuance of 4,341,333 units of the Company at a price of \$0.30 per unit (the "Unit") on July 17, 2018 (see below discussion titled Financings on page 17). These increases were offset by cash used in operating activities of \$1,176,064.

Prepaid expenses and other current assets increased by \$225,222 over the prior year end. Of the increases, \$223,267 in prepaid expenses related to the Powerwave IOR/EOR project in Oman. The prepaid expenses for the Powerwave IOR/EOR project in Oman will decline as the expenses are recognized over the 12 month licensing term. The Oman IOR/EOR project saw five of the eight contracted systems installed in December 2017. Offsetting the aforementioned increase in prepaid expenses related to the Oman IOR/EOR project, prepaid expenses declined as the Company decided to preserve cash and finance its insurance premiums this fiscal year versus prepaying the premiums at the beginning of the fiscal year.

Changes within trade and other receivables reflect timing differences in the underlying work or services being performed and the issuance of invoices and collecting of receivables, the logistics of client payable process, and our financial accounting policy of recognizing Powerwave revenues and direct costs equally over the term of the contracts. Trade and other receivables amounted to \$702,406 a decrease of \$432,524 from August 31, 2017 total of \$1,125,930, and was impacted by the non-cash, one-time, write-off for doubtful account of \$431,842 charged against one client's aged accounts over 120 days (see below discussion on the subsequent event in the Liquidity section).

Property, plant and equipment included a decrease of \$482,005, of which \$258,017 relates to Disposition of property, plant and equipment, \$269,580 due to amortization, and \$19,977 in asset purchases and \$2,227 in foreign exchange gains. Within the Disposition, \$111,697 in property, plant and equipment was sold, \$116,856 in leasehold improvements were transferred, \$104,465 related to sale of inventory, which was offset by \$75,000 for proceeds.

Liabilities

Total liabilities decreased by \$157,642 from the prior year-end to \$929,111. Of the changes in liabilities, \$457,178 relates to a decrease in trade accounts payable, which was offset by \$294,812 relating to increases in trade accruals.



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

Liquidity

The following table presents working capital information as at August 31, 2018 and 2017:

	As at August 31, 2018	As at August 31, 2017	Change
Current assets	3,624,848	3,773,581	(148,733)
Current liabilities	(929,111)	(1,086,753)	157,642
Working capital ¹	2,695,737	2,686,828	8,909

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

Working capital was positively impacted by the increase in cash and cash equivalents associated with the closing, during the fourth quarter, of the non-brokered private placement which resulted in net proceeds of \$1,221,668. There was an increase of \$824,354 in net change in working capital from the prior quarter (i.e., the working capital as at May 31, 2018 of \$1,871,383). Working capital was also positively affected by an increase of \$223,267 in prepaid expenses related to the Powerwave IOR/EOR project in Oman. However, working capital was negatively impacted by the non-cash, one-time loss on the full allowance for doubtful accounts of \$431,842 (as noted above).

Wavefront believes that its working capital position will continue to fluctuate and that the Company's cash flow will be affected by the degree of Powerwave commercialization and the product mixes between Powerwave well stimulation and Powerwave IOR/EOR product lines.

Working capital was also affected by trade accounts payable decrease by \$157,642 to \$929,111, principally related to a trade payable accrual of \$296,403 related to a prior period patent law suit that Wavefront initiated against the aforementioned Defendants. Offsetting the aforementioned decrease was an increase in accruals of \$236,071 related to international tax withholding tax liabilities.

Of aged trade accounts receivable outstanding as at August 31, 2018, \$748,615 of trade receivables (2017 – \$447,213) which were outstanding greater than 90 days, and of that total, \$729,187 (or 97.4%) was concentrated in three customer accounts. Subsequent to the year end, the Company collected \$768,598 of trade receivables, of which \$254,040 which were outstanding greater than 90 days, and payments totalling \$254,050 were from two of the top three customer accounts over 90 days. The Company also provided for an allowance for doubtful account on one customer in the amount of \$431,842 with a foreign exchange differential of \$9,352. The remaining balance of \$33,943 is from one customer that the Company considers credit-worthy with no concerns presently regarding collectability of this account.

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

Financings

Effective July 17, 2018, the Company closed a Private Placement for gross proceeds of \$1,302,400 through the issuance of 4,341,333 units of the Company at a price of \$0.30 per Unit. Each Unit will consist of one common share in the share capital of the Company, and one common share purchase warrant (a "Warrant"), with each Warrant being exercisable for one common share of the Company at an exercise price of \$0.45 for a period of 12 months after the closing date; provided that, commencing on the date that is four months and one day after the



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

closing of the Offering, if the volume weighted average trading price of a common share on the Exchange is at a price equal to or greater than \$0.65 for a period of more than 20 consecutive trading days.

In connection with the Private Placement, the Company incurred share issuance costs of \$80,732, which includes a finder's fee of 7% cash totaling \$46,683 and the issuance of 155,610 Warrants of the Company that were paid on portions of the private placement. The net proceeds received on the Private Placement was \$1,221,668.

Capital Resources

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

- To maintain an inventory of Powerwave tool systems and related activities; and,
- To support strategic marketing efforts related to near-term revenue generation.

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

As of December 30, 2018, Wavefront had \$2,681,757 of cash and cash equivalents on hand. Of the cash on hand, Wavefront has \$1,783,257 in high interest savings accounts with annualized interest rate ranging between 1.85% and 1.95%.

Credit risk of any deposits is linked to the insurance coverage limits as prescribed by the Canadian Deposit Insurance Corporation and that of National Bank Financial.

At August 31, 2018, the Company had yet to achieve profitable operations, had an accumulated deficit of \$73,992,005 (August 31, 2017 - \$72,201,234) and for the fiscal year ended August 31, 2018, but had recognized a net increase in cash and cash equivalents of \$143,079 (August 31, 2017 – a net decrease of \$3,131,746). Whether and when the Company can obtain profitability and positive cash flows from operations for an entire fiscal year is uncertain. The fiscal year's lack of profitable operations and cash used in operations may cast doubt on the Company's ability to continue as a going concern, and thus, required the Company to include a going concern note to its financial statements.

The Company however, currently has a working capital of \$2,695,737 (August 31, 2017 - \$2,686,828), which is 2.29 times greater than the fiscal 2018 cash used in operations of \$1,176,064, which supports Management's belief that Wavefront's financial health is improving and has sufficient resources to fund operations beyond at least the next twelve (12) months.

The subsequent collection of \$768,598 of accounts receivable, has provided cash and cash equivalents on December 30, 2018 of \$2,587,757, which is also more than sufficient to meet the operating requirements, be it planned or based on recent financial history, for at least the forthcoming twelve (12) months without any need for additional debt or equity financings.

The Company is presently of the opinion that its working capital position of \$3,152,162 as at August 31, 2018, the past two quarters of positive cash flows for operations (i.e. three months ended May 31, 2018 was \$63,287; and the three months ended August 31, 2018 was \$194,450), and the cash and cash equivalents on hand as at December 30,



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

2018 of \$2,587,757 support the assertion that Wavefront's financial health is continuing to improve and is more than sufficient to cover its current commitments and operations for at least the forthcoming twelve (12) months.

It is anticipated that cash from operations will continue the recent positive trend as Powerwave continues to be commercialized. However, given potential trade conflicts, commodity markets, and the Company's reliance on a few key customers, there exist some uncertainties in the market beyond Management's control. Should certain expected cash inflows not materialize in the amounts or at the times expected, or should the working capital be significantly reduced in the coming fiscal year, the Company may consider seeking additional financings or a restructuring of operations at that time. Wavefront may also consider future financings based on any need to increase working capital, to finance Powerwave tools, accelerate commercialization, or for acquisitions, and may consider debt financing of its Powerwave tools or an acquisition 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. and other relevant financing factors.

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

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 Year	1 – 3 Years	3 – 5 Years	More than 5 Years
Operating lease obligations ¹	\$ 659,694	\$ 354,011	\$ 305,683	\$ -	\$ -

Note 1: Included in the contractual commitments are future commitments in base rental lease payments related to the Lloydminster office and warehouse. The Lloydminster office lease has a commencement date of July 1, 2012 and an amended term expiring on June 30, 2019. Given the Disposition (as noted above), excluding the base rental lease payments related to the Lloydminster office and warehouse the total payments due would be \$529,244, with \$223,561 due within one year, \$305,684 due within two to five years.

In a prior year, the Company entered into a new office and warehouse lease for its Edmonton, Alberta operations. The office and warehouse lease had a commencement date of February 1, 2011 and a ten year term expiring on January 31, 2021. The future commitment in base rental payments is \$520,216 over the balance of the term.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.

TRANSACTIONS WITH RELATED PARTIES

Expense transaction

In a prior year 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 \$76,670 (2017 –



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

\$79,239) in consulting expense, with \$nil (August 31, 2017 - \$nil) included in accounts payable and accrued liabilities.

PROPOSED TRANSACTIONS

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

RISK AND UNCERTAINTIES

Ability to Manage Growth - Expansion into other geographical markets and targeted growth in the Company's business has placed, and is likely to continue to place, significant strains on the Company's administrative and operational resources and increased demands on its Management, internal systems, procedures and controls. If Wavefront experiences rapid acceptance of its technology suite, the need to manage such growth will add to the demands on Wavefront's Management, resources, systems, procedures and controls. There can be no assurance that Wavefront's administrative infrastructure, systems, procedures and controls will be adequate to support Wavefront's operations or that Wavefront's officers and personnel will be able to manage any significant expansion of operations. If Wavefront is unable to manage growth effectively, Wavefront's business, operating results and financial condition will be materially adversely affected.

Commodity Markets - The marketability of the Company's products and services could be affected, directly or indirectly, by significant declines or volatile swings in, and /or sustained lower oil prices, which may adversely affect Wavefront's business, operating results and financial condition.

Conflicts of Interest - Directors and officers of Wavefront may serve as directors of, or have shareholdings in, other reporting or private entities. To the extent that such other companies or entities may participate in ventures in which the Company may participate, the directors or officers of the Company may have a conflict of interest in negotiating and concluding terms respecting the extent of such participation. The laws of Canada, applicable to the Company, provide that the directors of Wavefront must act honestly, in good faith and in the best interests of Wavefront in resolving any conflicts that may arise, and all directors of Wavefront are aware of these fiduciary responsibilities. In determining whether or not the Company will participate in a particular venture, the directors will primarily consider the degree of risk to which the Company may be exposed, its financial position at that time and, depending on the magnitude of the venture and the absence of any disinterested directors, whether or not to subject any ventures in question to the shareholders of the Company for their approval.

Dependence on Management - The Company is dependent on a relatively small number of key employees, including, without in any way limiting the foregoing, the President and Chief Executive Officer and the Chief Financial Officer, the loss of any of whom could have a significant and material adverse effect on the Company.

Environmental Matters - Currently the Company supplies and licenses oilfield and environmental remediation products and services therefore, there is the possibility that it will be subject to federal, provincial and local laws and regulations regarding the environment. The Company may be subject to counterparty liability as its technology is used to inject fluids into the ground which may cause harm or inadvertently displace a contaminant plume from one location to another. Although management believes its safety procedures are appropriate and works under the guidance of clients, third party consultants and contractors, the risk of offence or liability cannot be completely eliminated. Moreover, there can be no assurance that the Company will not be required to incur significant costs to comply with laws and regulations in the future. The past ownership of mineral oil and gas rights however, may



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

expose the Company to the environmental risks and liabilities associated with any other oil producer, plugging and abandonment liabilities associated with any other oil producer.

Government Regulations / Policy – The Company may be subject to, and adversely affected from time to time by changes in regulation and policy in the countries it is, or plans to be, operating in and such factors may create delays in project procurement and implementation that may result in the need for additional funding.

History of Earnings - The Company is an early stage development company and does not have a consistent, long-term history of earnings, profit or return on investment. There is no assurance that it will earn sufficient revenues to continue to operate as a going concern or operate profitably or provide a return on investment in the future. The Company has no intention for the foreseeable future to pay dividends.

Information Technology and Disaster Recovery – The efficient operation of the Company's business is dependent upon computer hardware and software systems. These information systems may be vulnerable to security breaches by computer hackers and cyberterrorists. In addition, an unforeseen natural or manmade disaster could result in key information technology systems being compromised, damaged, or destroyed.

The Company has implemented security measures to maintain confidential and proprietary software, designs and information stored on or operating on the Company's information systems. However, these measures and technology may not be adequate due to the increasing volume and sophistication of potential cyber attacks. The Company has also implemented backup and redundancy measures with respect to certain information technology systems. However, there is a risk that these measures may not adequately prevent data loss or theft or damage of proprietary information or software as a result of security breach or disaster. This could result in business disruption, decreased performance, or increased costs, and could have a material adverse affect on the Company's business, financial condition, results of operation, cash flows, or reputation. The Company maintains stand alone cyber insurance; however, there can be no assurance that the type and / or amount of coverage will adequately cover any potential losses the Company may suffer.

International Business – The Company undertakes business internationally. Securing of such business introduces currency risks, credit risks, political risks and other risks inherent to conducting business internationally. There can be no assurance that steps taken by Management to address these risks will eliminate any or all adverse affects and, accordingly, the Company may suffer losses.

Key Personnel – The Company's anticipated growth and expansion into new geographic areas and, ultimately, new applications for the Technologies processes, may require additional employee expertise and may place increased demands on the Company's current resources and Management with respect to recruiting, training, budgeting, scheduling, and technical skills. These demands may require the addition of new Management and technical personnel and the development of additional expertise by existing personnel. A shortage of, or failure to retain, such personnel or develop or acquire the expertise could adversely affect prospects for the Company's success. Subsequent to the year end, the Company acquired key person insurance on three individuals, including key Management, of Wavefront.

Market Acceptance –Powerwave's acceptance will be dependent on the Company consistently demonstrating the benefits of its core technology under a variety of field and reservoir conditions. There can be no assurance that commercial acceptance of the Company's products and services will be achieved within a reasonable timeframe and with the financial resources available to the Company now or in the future.



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

Need For Additional Financing – The Company may require additional financing in order to make further investments in the technology or to fund unanticipated demand, to take advantage of unanticipated opportunities, to fund the tool research and development, Powerwave tool manufacturing, to fund the Company as a going concern, or to fund the Company through a protracted commercialization to profitability stage. There can be no assurance that additional financing will be available to the Company on acceptable terms or in an acceptable form, or at all. Any financing may be affected by changes in Wavefront's credit rating, general equity market conditions, the volatility of Wavefront's shares, interest rates, and valuation of available collateral. Such financing, if available, might have the effect of diluting the holdings of existing shareholders.

Patents – The Company's success will depend, in part, on its ability to enforce and defend its patents, maintain trade secret protection and operate without infringing on the proprietary rights of third parties or having third parties circumvent the Company's rights. Wavefront has received numerous patents, and is actively pursuing applications for broader international patent protection. Furthermore, there can be no assurance that others will not independently develop similar products, which duplicate any of the Company's technology or products or, if patents are issued to Wavefront, design around those patented products developed by the Company.

Powerwave Technology Risks – Although the results of research, development, and field installations have demonstrated Wavefront's Powerwave technology to be viable, there is no guarantee that Powerwave will be commercially successful or be applied successfully in all cases. Although the Company believes there will be many applications for its products and services and that the anticipated market will be receptive and expand, these beliefs may prove to be incorrect for a variety of reasons, including competition from other products and the degree of commercial viability of its products. The possibility of a Powerwave project not providing the intended benefits, due to unforeseeable factors, could also impede the acceptance of the Powerwave in the market place. Any failure of the Powerwave process to generate the intended benefits even in isolated circumstances could have an adverse effect on or protracted market acceptance.

Product Liability, Warranties and Uninsured Risks – Although the Company maintains insurance to protect against certain risks in such amounts as it considers commercially reasonable, its insurance will not cover all of the potential risks associated with its operations. The sale of products and services may expose the Company to warranty costs or other potential liability resulting from such use. Although product liability insurance is currently maintained, the obligation to pay a claim in excess of insurance could have a material adverse effect on the business, financial condition and future prospects of the Company. Due to the magnitude of insurance premiums and as the exposure of the Company to a catastrophic total loss of the tools is limited to certain situations, which the Company believes has a low probability of occurring, the Company has currently decided to self-insure its tools. Should a catastrophic loss of tools occur it would have a material adverse effect on the business, financial condition, and future prospects of the Company.

Rapid Changes / Competition – Other companies have developed, and may be developing, or may commercialize alternative technologies faster than the Company. Such companies may develop products that are as, or more, effective than those developed by the Company and there can be no assurance that research and development by others will not render the Company's technologies obsolete or non-competitive.

Reliance on Third Parties and Future Collaboration – The Company has, and is anticipated to enter into, various arrangements with agents, collaborators, licensors, licensees and others for the research, development, testing, manufacturing and marketing of its products and services. There can be no assurance that the Company will be able to establish such collaborations on favorable terms, if at all, or that its current or future collaborative arrangements will be successful.



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

Trade Relations – The Company markets its products and service in the global market place. The Company's manufactured products and personnel's access to these markets could be from time to time affected, directly or indirectly, by changes in governmental relations in the countries it which operates in or plans to operate in. Wavefront's business, operating results and financial condition may be materially adversely affected by changes in trade relations.

ENVIRONMENTAL RISK

As an OFS provider, Wavefront is engaged in the enhancing oil and gas production. The Company is committed to ensuring that all stakeholders are aware of both their responsibility for safety matters and protection of the environment and how integral those matters are to Wavefront's business. These risks are managed by executing policies and standards that are designed to comply with or exceed government regulations and industry best practices. In addition, Wavefront maintains a system, in respect of our operations, that identifies, assesses and controls safety, security and environmental risk and requires regular reporting to Senior Management and the Board of Directors. The Safety, Health and Environmental Affairs Operational Committee of the Company provides recommended environmental policies for approval by our Board and oversees compliance with government laws and regulations. Monitoring and reporting programs for environmental, health and safety performance in day-to-day operations, as well as inspections and assessments, are designed to provide assurance that environmental and regulatory standards are met. Contingency plans are in place for a timely response to an environmental event.

The Company is exposed to physical risk that may arise due to Powerwave's potential damage of a well, , litigations risks related to the use of Powerwave to inject fluids into the ground which may cause harm to overlying geological stratas. These inherent risks may also create a reputational risk to the Company and its suite of Technologies.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Company's critical accounting policies and estimates are disclosed in Note 3, "Significant Accounting Policies" and Note 5, "Critical Accounting Estimates and Judgments" of the Consolidated Financial Statements for the year ended August 31, 2018.

CHANGES IN ACCOUNTING POLICIES

The changes in accounting policies are disclosed in Note 4, "New Standards Issued But Not Yet Adopted", of the Consolidated Financial Statements for the year ended August 31, 2018.

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



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

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.

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

Selected Annual Information

The following is selected annual consolidated financial information from Wavefront's audited financial statements for each of the three most recently completed years ended August 31. This information should be read in conjunction with the applicable interim unaudited and annual audited financial statements and related notes thereto.

	2018	2017	2016
Revenues	\$ 3,215,029	\$ 2,167,540	\$ 2,735,798
Net loss	\$ (1,790,771)	\$ (3,710,094)	\$ (2,762,201)
Basic and diluted loss per share	\$ (0.021)	\$ (0.044)	\$ (0.033)
Weighted average number of common shares outstanding ¹	83,530,011	82,956,240	82,956,240
Working capital	\$ 2,695,737	\$ 2,686,828	\$ 5,638,062
Total assets	\$ 4,625,934	\$ 5,236,484	\$ 8,156,083
Total long term financial liabilities	\$ nil	\$ nil	\$ nil
Total liabilities	\$ 929,111	\$ 1,086,753	\$ 609,102
Shares outstanding at August 31 ¹	87,372,573	82,956,240	82,956,240

Note 1: In Canadian dollars, except share data

DESCRIPTION OF SHARE CAPITAL

As at August 31, 2018, Wavefront's share capital consisted of the following:



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

Common shares	
Authorized:	unlimited
Issued and outstanding:	
Free trading	87,372,573
Convertible into common shares	
Share purchase warrants	4,496,943
Incentive stock options	<u>3,900,000</u>
	<u>8,396,943</u>
Fully diluted share capital:	<u>95,769,516</u>

As at December 30, 2018, Wavefront's number of issued and outstanding shares are 87,572,573.

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 quarter

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 ten years and vest, at a minimum, in equal tranches at three month intervals over a period of eighteen months.

Date of Grant	Number of Shares	Optionee	Exercise Price	Expiry Date
April 10, 2018	<u>200,000</u>	IR Consultant	\$ 0.46	April 10, 2028
	200,000			

Options outstanding

As at August 31, 2018

Date Granted	Expiry Date	Number of Incentive Stock Options	Exercise Price per Share \$
March 17, 2015	March 17, 2020	900,000	0.12
August 4, 2016	August 4, 2026	1,900,000	0.28
February 21, 2014	February 21, 2019	825,000	0.315
January 6, 2017	January 6, 2027	75,000	0.35
April 10, 2018	April 10, 2028	<u>200,000</u>	0.46
		<u>3,900,000</u>	



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

Subsequent to the fiscal year ended August 31, 2018, 100,000 stock options exercisable at \$0.12 and 100,000 stock options exercisable at \$0.315 were exercised by a Director of the Company for aggregate gross proceeds of \$43,500.

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 IFRS.

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, 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 Management Discussion & Analysis.

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 the Management Discussion and Analysis above, are "forward-

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

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 and its long-term plans, including the potential necessity for further cost reductions;
- under the heading "Liquidity and Capital Resources", Wavefront's beliefs about its working capital position and cash flow break even 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, 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", "Environmental Risk" and "Financial and Other Instruments" sections in this Management Discussion and Analysis. In determining Wavefront's forward-looking statements, Wavefront considers material factors including assumptions and expectations regarding customer demand and adoption rates for Wavefront's products; commodity prices and interest and foreign exchange rates; and the availability and cost of inputs, labour and services, patent, technology and competitive risk. Many of these factors are beyond Wavefront's control and have effects which are difficult to predict. 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. Investors and the public should carefully consider these factors, other uncertainties and potential events, and the inherent uncertainty of forward-looking statements when relying on these statements to make decisions with respect to Wavefront.

The forward-looking statements contained herein represent Wavefront's expectations at December 30, 2018, 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.



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

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).