*Unaudited Condensed Consolidated Interim Financial Statements of*

# WAVEFRONT TECHNOLOGY SOLUTIONS INC.

*Three and six months ended February 28, 2019 and 2018*

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NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company is disclosing that its auditors have not reviewed the unaudited condensed consolidated interim financial statements for the periods ended February 28, 2019 and 2018.

# WAVEFRONT TECHNOLOGY SOLUTIONS INC.
# Condensed Consolidated Interim Statements of Financial Position
# As at February 28, 2019 and August 31, 2018
**(Canadian dollars)**
**(Unaudited)**

| | Note | | February 28, 2019 | | August 31, 2018 |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| CURRENT ASSETS | | | | | |
| Cash and cash equivalents | | $ | 2,781,877 | $ | 2,587,328 |
| Trade and other receivables | | | 646,172 | | 702,406 |
| Inventories | 3 | | 108,778 | | 76,623 |
| Prepaid expenses and other current assets | | | 156,996 | | 258,491 |
| | | | 3,693,823 | | 3,624,848 |
| NON-CURRENT ASSETS | | | | | |
| Deposits | | | 44,338 | | 44,338 |
| Property, plant and equipment | 3 | | 882,249 | | 956,748 |
| | | $ | 4,620,410 | $ | 4,625,934 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | | | |
| CURRENT LIABILITIES | | | | | |
| Unearned revenue | | | 388,669 | | 322,410 |
| Trade accounts payable and accrued liabilities | | | 760,353 | | 606,701 |
| | | $ | 1,149,022 | $ | 929,111 |
| SHAREHOLDERS' EQUITY | | | | | |
| Share capital | 4 b | | 67,282,318 | | 67,216,013 |
| Warrants | | | 484,481 | | 484,481 |
| Contributed surplus | 4 d | | 9,421,731 | | 9,421,036 |
| Accumulated other comprehensive income | | | 564,634 | | 567,298 |
| Deficit | | | (74,281,776) | | (73,992,005) |
| | | | 3,471,388 | | 3,696,823 |
| | | $ | 4,620,410 | $ | 4,625,934 |
| Going concern | 2 d | | | | |

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

# WAVEFRONT TECHNOLOGY SOLUTIONS INC.
## Condensed Consolidated Interim Statements of Net Loss and Comprehensive Loss
## Three and six month periods ended February 28, 2019 and 2018
**(Canadian dollars)**
**(Unaudited)**

| | Note | For the three months ended February 28, 2019 | For the three months ended February 28, 2018 | For the six months ended February 28, 2019 | For the six months ended February 28, 2018 |
|---|---|---|---|---|---|
| Revenue | | $ 894,887 | $ 856,633 | $ 1,838,640 | $ 1,133,300 |
| Cost of sales | | 179,221 | 150,039 | 264,050 | 234,229 |
| Gross Profit | | 715,666 | 706,594 | 1,574,590 | 899,071 |
| Loss (gain) on disposal of property, plant and equipment | | (192) | 258,017 | 742 | 258,017 |
| General and administrative | | 699,691 | 704,463 | 1,403,290 | 1,428,546 |
| Sales and marketing | | 155,726 | 172,566 | 317,075 | 382,045 |
| Amortization and depreciation | 3 | 66,519 | 72,036 | 111,220 | 142,604 |
| Research and development | | 16,458 | 22,552 | 44,210 | 44,536 |
| | | 938,202 | 1,229,634 | 1,876,537 | 2,255,748 |
| OPERATING LOSS | | (222,536) | (523,040) | (301,947) | (1,356,677) |
| OTHER (EXPENSES) INCOME | | | | | |
| Financing costs | | (29,755) | (1,453) | (4,437) | (4,027) |
| Financing income | | 8,468 | 13,398 | 16,613 | 13,005 |
| | | (21,287) | 11,945 | 12,176 | 8,978 |
| NET LOSS | | (243,823) | (511,095) | (289,771) | (1,347,699) |
| OTHER COMPREHENSIVE INCOME | | | | | |
| Items that may be reclassified subsequently to net loss | | | | | |
| Translation gain (loss) on foreign operations | | (7,461) | (2,830) | (2,664) | 13,655 |
| COMPREHENSIVE LOSS | | $ (251,284) | $ (513,925) | $ (292,435) | $ (1,334,044) |
| WEIGHTED AVERAGE NUMBER OF SHARES | | | | | |
| Basic and diluted | 5 | 87,507,380 | 82,958,312 | 87,507,380 | 82,958,312 |
| LOSS PER COMMON SHARE | | | | | |
| Basic and diluted | 5 | $ (0.003) | $ (0.006) | $ (0.003) | $ (0.016) |

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

# WAVEFRONT TECHNOLOGY SOLUTIONS INC.
## Condensed Consolidated Interim Statements of Changes in Shareholders' Equity
## Three and six month periods ended February 28, 2019 and 2018
**(Canadian dollars)**
**(Unaudited)**

| | Share capital | Warrants | Contributed surplus | Accumulated other comprehensive (loss) income | Deficit | Total |
|---|---|---|---|---|---|---|
| **Balance at August 31, 2017** | 66,438,909 | - | 9,363,732 | 548,324 | (72,201,234) | $ 4,149,731 |
| Net Loss | - | - | - | - | (1,347,699) | (1,347,699) |
| Translation gain on foreign operations | - | - | - | 13,655 | - | (19,475) |
| Exercise of options | 15,625 | - | (6,125) | - | - | 9,500 |
| Recognition of shared-based payments | - | - | 32,727 | - | - | 32,727 |
| **Balance at February 28, 2018** | 66,454,534 | - | 9,390,334 | 561,979 | (73,548,933) | $ 2,857,914 |
| Net Loss | - | - | - | - | (443,072) | (443,072) |
| Translation gain on foreign operations | - | - | - | 5,319 | - | 5,319 |
| Private placement | 737,187 | 484,481 | - | - | - | 1,221,668 |
| Exercise of options | 24,292 | - | (10,292) | - | - | 14,000 |
| Recognition of shared-based payments | - | - | 40,994 | - | - | 40,994 |
| **Balance at August 31, 2018** | 67,216,013 | 484,481 | 9,421,036 | 567,298 | (73,992,005) | $ 3,696,823 |
| Net Loss | - | - | - | - | (289,771) | (289,771) |
| Translation loss on foreign operations | - | - | - | (2,664) | - | (2,664) |
| Exercise of options | 66,305 | - | (22,805) | | | 43,500 |
| Recognition of shared-based payments | - | - | 23,500 | - | - | 23,500 |
| **Balance at February 28, 2019** | $ 67,282,318 | $ 484,481 | $ 9,421,731 | $ 564,634 | $ (74,281,776) | $ 3,471,388 |

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

# WAVEFRONT TECHNOLOGY SOLUTIONS INC.
# Condensed Consolidated Interim Statements of Cash Flows
# Six month periods ended February 28, 2019 and 2018
**(Canadian dollars)**
**(Unaudited)**

| | Note | February 28, 2019 | February 28, 2018 |
|---|---|---|---|
| OPERATING ACTIVITIES | | | |
| Net loss | | $ (289,771) | $ (1,347,699) |
| Amortization and depreciation | 3 | 111,220 | 142,604 |
| Share-based payments | 4 d | 23,500 | 32,727 |
| Interest expense | | 3,203 | 4,027 |
| Loss on disposal of property, plant and equipment, and inventory | | 742 | 260,085 |
| Impact of foreign translation | | (6,380) | 8,224 |
| Changes to loss not including cash | | | |
| Change in trade and other payables | | 153,651 | (303,806) |
| Change in prepaid expenses | | 101,495 | (336,957) |
| Change in unearned revenue | | 66,259 | 12,175 |
| Change in trade and other receivables | | 56,234 | 83,616 |
| Change in deposits | | - | - |
| Interest paid | | (3,203) | (4,027) |
| Change in inventory | | (32,155) | 15,230 |
| Cash from (used in) operating activities | | 184,795 | (1,433,801) |
| Financing Activities | | | |
| Proceeds from exercise of options | 4 d | 43,500 | 9,500 |
| Cash from in financing activities | | 43,500 | 9,500 |
| INVESTING ACTIVITIES | | | |
| Purchase of property, plant and equipment | 3 | (43,115) | (6,141) |
| Proceeds on disposal of property, plant and equipment | | 6,138 | - |
| Cash used in investing activities | | (36,977) | (6,141) |
| Foreign exchange gain on cash held in foreign currency | | 3,231 | 4,183 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | | 194,549 | (1,426,259) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | | 2,587,328 | 2,444,249 |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | | $ 2,781,877 | $ 1,017,990 |
| CASH AND CASH EQUIVALENTS | | | |
| Cash denominated in CDN | | $ 1,792,908 | $ 825,461 |
| Cash denominated in USD | | 905,345 | 150,308 |
| Foreign currency translation amount | | 83,623 | 42,221 |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | | $ 2,781,877 | $ 1,017,990 |

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

## 1. NATURE OF OPERATIONS AND CORPORATE INFORMATION

Wavefront Technology Solutions Inc.'s ("Wavefront" or the "Company") is an industry 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$^{TM}$", 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 ("E&P") companies. Wavefront operates in the global market place dealing directly with E&P's and through an international network of distributors and agents.

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

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

## 2. STATEMENT OF COMPLIANCE

*a) Statement of compliance*

These unaudited condensed consolidated interim financial statements (the "Financial Statements") have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting using accounting policies under International Financial Reporting Standards ("IFRS") for interim financial information. These Financial Statements have been prepared using the same accounting policies and methods of computation as the annual consolidated financial statements for the fiscal year ended August 31, 2018, with the exception of the impact of certain amendments to accounting standards or new interpretations issued by the IASB, which were applicable from September 1, 2018, as described below in Note 2(e).

These Financial Statements were approved for issue on April 29, 2019.

*b) Principles of consolidation*

These consolidated financial statements incorporate the financial statements of the Company and the entity controlled by the Company (its wholly owned subsidiary, Wavefront Technology Solutions USA Inc.). Control is achieved when the Company has the power to, directly or indirectly, govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are presently exercisable or convertible are taken into account.

The financial statements of the subsidiary are included in the consolidated financial statements from the date that control commences until the date that control ceases.

All subsidiary companies are wholly-owned and inter-company transactions, balances, revenues and expenses and unrealized gains and losses have been eliminated on consolidation.

*c) Reclassification of comparative figures*

Certain comparative amounts in the consolidated statement of financial position have been reclassified to conform with the current period's presentation. The reclassification resulted in $322,410 being reclassified from trade accounts payable and accrued liabilities to unearned revenue in the August 31, 2018 statement of financial position. Since the amounts are reclassifications within statement of financial position there was no impact to equity; however, there was a resulting reclassification of $322,410 to the statement of cash flows in the comparative period.

*d) Going concern*

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

As at February 28, 2019, the Company had yet to achieve profitable operations, had an accumulated deficit of $74,281,776 (August 31, 2018 - $73,992,005), and for the six months ended February 28, 2019, had a net loss of $289,771 (February 28, 2018 - $1,347,699), but had an increase in cash and cash equivalents of $194,549 (February 28, 2018 – a net decrease of $1,426,259). Whether and when the Company can obtain profitability and positive cash flows from operations for an entire fiscal year is uncertain. The lack of continuing profitable operations may cast significant doubt on the Company's ability to continue as a going concern.

The Company currently has a working capital of $2,544,801 (August 31, 2018 - $2,695,737).

The ability to continue as a going concern is dependent on the Company's continued ability to generate quarterly positive cash flows from operations in the future in order to meet liabilities as they come due and enable the Company to continue operations. The ability to continue as a going concern may be adversely impacted by technology adoption rates, sales cycles, the addition or loss of customers, sales per customer, commodity prices and international trade relations. The outcome of such matters cannot be predicted.

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

*e) Changes in accounting policies*

The following standards, that are applicable to the Company, have been adopted for the first time effective September 1, 2018:

Financial Instruments: Classification of Measurement ("IFRS 9")

The Company adopted IFRS 9 Financial Instruments (IFRS 9), resulting in changes in accounting policies to the amounts recognized in the financial statements. In accordance with its transitional provision, IFRS 9 was adopted on a modified retrospective basis. Comparative figures were not restated and continue to be reported under IAS 39 Financial Instruments: Recognition and Measurement (IAS 39). IFRS 9 introduces new requirements for the classification and measurement of financial assets and financial liabilities, including derecognition. The new standard includes a single expected-loss impairment model and a reformed approach to hedge accounting.

The adoption of IFRS 9 did not have an effect on the Company's measurement of financial assets and liabilities. IFRS 9 replaces IAS 39 and significantly amends other standards dealing with financial instruments, such as IFRS 7 Financial Instruments: Disclosures.

**Summary of significant accounting policies**

*Classification and measurement*

Financial assets are initially recognized at fair value plus directly attributable transaction costs, except for financial assets at fair value through profit or loss ("FVPL"), for which transaction costs are expensed.

Subsequent measurement of financial assets under IFRS 9 is at FVPL, amortized cost, or fair value through other comprehensive income ("FVOCI"). The classification is based on two criteria: the Company's business approach for managing the financial assets and whether the instruments' contractual cash flows represent "solely payments of principal and interest" (the "SPPI criterion") on the principal amount outstanding. The business approach considers whether a Company's objective is to receive cash flows from holding assets, from selling assets in a portfolio, or a combination of both.

- Amortized cost: Assets held for collection of contractual cash flows, when they meet the SPPI criterion, are measured at amortized cost. Items in this category include cash and cash equivalents, cash in escrow, receivables, and other financial assets.

- FVOCI: Assets held within a business approach both to collect cash flows and sell the assets, when they meet the SPPI criterion, are measured at FVOCI. Interest income from these financial assets is included in finance income using the effective interest rate method. Impairment and foreign exchange gains and losses are reported in income. The Company does not currently have any financial instruments that are reported under FVOCI.

- FVPL: Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVPL with realized and unrealized gains and losses reported in other income (expense). The Company does not currently have any financial instruments that are reported under FVPL.

The Company reclassifies financial assets only when its business approaches for managing those assets changes. Under IFRS 9, derivatives embedded in contracts, when the host is a financial asset within the scope of the standard, are never separated.

*Impairment under IFRS 9*

The adoption of IFRS 9 changed the Company's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss ("ECL"). The following types of assets are subject to the new ECL model: accounts receivable, including trade and other receivables, unbilled receivables, or prepaid expenses.

IFRS 9 requires the Company to record an allowance for ECL based on a 12-month ECL or lifetime ECL. Assets within the scope of IFRS 9 that are considered to have low credit risk have an impairment provision recognized during the period limited to 12-month ECLs. However, when credit risk has increased significantly since origination, the allowance will be based on the lifetime ECL. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive.

For trade and other receivables, unbilled receivables, contract assets or prepaid expenses, the Company applies the simplified approach permitted by IFRS 9, which requires lifetime ECLs to be recognized from initial recognition. The Company established a provision matrix based on its historical credit loss experience and adjusted for forward-looking factors.

The following table summarizes the changes to the Company's financial asset and liability classifications:

| | **IAS 39** | | **IFRS 9** | |
|---|---|---|---|---|
| *Financial Assets / Liabilities* | *Classification* | *Measurement* | *Classification* | *Measurement* |
| Cash and cash equivalents | Held for trading | Fair value | Amortized cost | Amortized cost |
| Trade and other receivables | Loans and receivables | Amortized cost | Amortized cost | Amortized cost |
| Unearned revenue | Other financial liabilities | Amortized cost | Amortized cost | Amortized cost |
| Trade payables and other current liabilities | Other financial liabilities | Amortized cost | Amortized cost | Amortized cost |

Revenue from Contracts with Customers (“IFRS 15”)

The Company has adopted IFRS 15 Revenue from Contracts with Customers (IFRS 15) using the modified retrospective approach. IFRS 15 applies to all revenue contracts with customers and provides a model for the recognition and measurement of the sale of some non-financial assets such as property, plant, and equipment, and intangible assets. It sets out a five-step model for revenue recognition and applies to all industries. The core principle is that revenue should be recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration that the entity expects to be entitled to in exchange for those goods or services.

The Company used the practical expedient to apply IFRS 15 only to contracts not completed at September 1, 2018. In addition, the Company used the practical expedient to reflect the aggregate effect of all contract modifications that occurred before September 1, 2018, for the purposes of identifying the satisfied and unsatisfied performance obligations, determining the transaction price, and allocating the transaction price to the satisfied and unsatisfied performance obligations.

The details of the Company’s significant accounting policies; significant accounting judgments, estimates, and assumptions are disclosed below.

**Summary of significant accounting policies**

*Revenue recognition*

The Company generates revenue from bundled tool rental and technology licensing contracts in which goods and/or services are typically provided over time. Revenue is measured based on the consideration the Company expects to be entitled to in exchange for providing goods and services, excluding discounts, distributor fees, and any duty and taxes collected from clients that are reimbursable or remitted directly by clients to government authorities.

In providing its tools and technology, the Company may engage distributors or agents. When the Company engages distributor or agents, in general, they control the specific good or service before it is transferred to the end user or E&P companies, in such cases, Wavefront recognizes revenue in the net amount. The Company also may act as a principal in its contracts directly with the end user or E&P companies, as it controls the specific good or service before it is transferred to the customer. The Company however, assesses all contracts individually as to whether it is acting as a principal or agent, except where those contracts are assessed in portfolio types, based on similarity of characteristics and time of entering into agreements.

Most all of the Company’s contracts include a single performance obligation because the promise to transfer the individual goods or services is not separately identifiable from other promises in the contract and therefore is not distinct.

The Company transfers control of the goods or service it provides to clients over time and therefore recognizes revenue progressively as the services are performed or over the licensed term. When the contract outcome cannot be measured reliably, revenue is recognized only to the extent that the expenses incurred are eligible to be recovered. Provisions for estimated losses on contracts are made in the period that the losses are determined.

The timing of revenue recognition, billings, and cash collections results in trade and other receivables, unbilled receivables, prepaid expenses (contract assets), and unearned revenue (contract liabilities) in the statement of financial position. Amounts are typically invoiced at upon the conclusion of the services provided and the licensed term or as work progresses in accordance with agreed-upon contractual terms, either at periodic intervals. Trade and other receivables represent amounts currently due from customers, consisting of invoiced amounts, and unbilled services and licenses that have not yet been invoiced to clients. Prepaid expenses represent (contract assets) amounts that are paid in advance of the provision of services and license to the client. Amortization of prepaid expenses is included in costs of sales in the condensed consolidated interim statements of net loss and comprehensive loss. Unearned revenue (contract liabilities) represents amounts that have been paid by clients in excess of revenue recognized, or amounts paid by clients in excess of estimated taxes that are either reimbursable or to clients for payment to government authorities. Unearned revenue, which was included in the contract liability balance at the beginning of the period, that was recognized in the three months ended February 28, 2019 was $53,240 (February 28, 2018 - $nil) and six months ended February 28, 2019 was $98,149 (February 28, 2018 - $nil).

Revenue is adjusted for the effects of a significant financing component when the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. Advance payments and holdbacks typically do not result in a significant financing component because the intent is to provide protection against the failure of one party to adequately complete some or all of its obligations under the contract.

***Significant accounting judgments, estimates, and assumptions***

*Revenue recognition*

The Company accounts for its revenue contracts using the percentage of completion method, which is based on the time of the tool rental and the underlying technology's licensing term.

On an ongoing basis, estimated revenue is updated to reflect the amount of consideration the Company expects to be entitled to in exchange for providing services and technology. Revenue estimates are affected by various uncertainties that depend on the outcome of future events, including change orders, and foreign exchange rates.

Prepaid expenses are amortized over the period of expected benefit of the tool rental and licensed term. Estimating the costs to be deferred and amortized is subjective and requires the use of management's best judgments based on information available at that time.

Changes in estimates are reflected in the period in which the circumstances that gave rise to the change became known and affect the Company's revenue, unbilled receivables, prepaid expenses, and unearned revenue.

*Change orders*

Under IFRS 15, change orders are included in estimated revenue when management believes the Company has an enforceable right to the change order or claim, the amount can be estimated reliably, and realization is highly probable. To evaluate these criteria, management considers the tool rental and licensing term, the contractual or legal basis for any change in revenue, and the history of any negotiations for similar contracts.

*Significant financing component*

Under IFRS 15, the Company will assess the existence of a significant financing component regardless of whether promised financing by the Company (i.e., delayed payment of consideration or financing costs) or the customer (i.e., early or pre-payment of consideration or finance income) is explicitly stated in the contract. The Company has assessed all potential contracts and determined that at present no potential contract contains a significant financing component.

*Prepaid expenses*

Under IFRS 15, expenses will be deferred when they relate directly to the contract or an anticipated contract and when they generate or enhance Company resources that will be used to satisfy performance obligations in the future. Prepaid expenses are typically amortized over the tool rental and licensing term using the percentage of completion applied to estimated revenue.

*Impacts on financial statements*

The Company concluded, aside from the reclassification in Note 2 (c), the adopting IFRS 15 that there is no material impact to the timing or recognition of or measurement of revenue under IFRS 15. For disclosure, the Company re-classified unearned revenue in the statement of financial position. As at February 28, 2019 $111,892 (August 31, 2018 - $223,167) of prepaid contract expenses are included in prepaid expenses and other current assets in the statement of financial position, which is not being re-stated.

*f) New standards issued but not adopted*

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

<u>Leases ("IFRS 16")</u>

IFRS 16, *Leases*, was issued by the IASB in January 2016, and will replace International Accounting Standards ("IAS") 17, "Leases". IFRS 16 will bring most leases on-balance sheet for leases under a single model, eliminating the distinction between operating and finance leases.

**(Canadian dollars)**

Lessor accounting remains largely unchanged and the distinction between operating and finance leases is retained. The new standard effective for annual periods beginning on or after January 1, 2019, with early application permitted if IFRS 15 has also been applied. The Company is currently reviewing corporate processes to ensure contract completeness when identifying leases, and analyzing contracts impacted by the adoption of the new standard is in progress. The Company is currently assessing the impact the standard will have on its Financial Statements.

## 3. PROPERTY, PLANT AND EQUIPMENT

| As at February 28, 2019 | Tools and equipment | Computer, automotive and office equipment | Leasehold improvements | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| Balance at August 31, 2018 | $ 3,539,429 | $ 792,507 | $ 591,147 | $ 4,923,083 |
| Additions | 44,470 | - | - | 44,470 |
| Disposals | (97,082) | (65,362) | - | (162,444) |
| Impact of foreign translation | 1,616 | 2,738 | - | 4,354 |
| Balance at February 28, 2019 | 3,488,433 | 729,883 | 591,147 | 4,809,463 |
| **Accumulated depreciation** | | | | |
| Balance at August 31, 2018 | (2,788,136) | (735,309) | (442,890) | (3,966,335) |
| Depreciation | (76,146) | (6,408) | (28,666) | (111,220) |
| Disposals | 95,391 | 58,826 | - | 154,217 |
| Impact of foreign translation | (1,483) | (2,393) | - | (3,876) |
| Balance at February 28, 2019 | (2,770,374) | (685,284) | (471,556) | (3,927,214) |
| **Net book value** | | | | |
| Balance at February 28, 2019 | $ 718,059 | $ 44,599 | $ 119,591 | $ 882,249 |

Depreciation expense for the three and six months ended February 28, 2019 was $66,519 and $111,220, respectively (three and six months ended February 28, 2018 - $72,036 and $142,604, respectively).

As at February 28, 2019 property, plant and equipment includes tools and equipment under construction of $265,534 (August 31, 2018 - $282,780), which is not being depreciated.

As at February 28, 2019 the Company reviewed the raw materials and consumable inventory it had on hand and determined that not all of this inventory would be consumed with the Company's next operating cycle. Based on this analysis, the Company reclassified $219,063 (August 31, 2018 - $220,409) of raw material and consumable inventory to equipment under construction within the tools and equipment asset segment.

As at February 28, 2019, the Company assessed impairment indicators for the Company's Powerwave CGU and concluded that apart from prior years' impairment indicators that no impairment indicators were present.

**(Canadian dollars)**

## 4. SHARE CAPITAL

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

*a) Authorized share capital*

Unlimited common shares without par value.

*b) Issued common shares*

The Company's issued share capital is as follows:

The changes in the Company's outstanding common shares were as follows:

| | February 28, 2019 | | |
|---|---|---|---|
| | Number | | Stated capital |
| Balance, beginning of period | 87,372,573 | $ | 67,216,013 |
| Stock options exercised[(1)] | 200,000 | | 66,305 |
| Balance, end of period | 87,572,573 | $ | 67,282,318 |

1) Of the stock options exercise, 100,000 stock options exercisable at $0.12 and 100,000 stock options exercisable at $0.315 were exercised by a Director of the Corporation for gross proceeds of $43,500.

*c) Stock-based compensation plan*

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

*<u>Movements in stock options during the period</u>*

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

**(Canadian dollars)**

| | February 28, 2019 | |
|---|---|---|
| | Number | Weighted average exercise price |
| Outstanding, beginning of period | 3,900,000 | $ 0.26 |
| Forfeited | (725,000) | (0.315) |
| Exercised | (200,000) | (0.22) |
| Outstanding, end of period | 2,975,000 | $ 0.25 |

Fair value of stock options granted during the period

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

During the six months ended February 28, 2019, the Company incurred $23,500 (February 28, 2018 - $32,727) in compensation expense relating to outstanding stock options.

*d) Contributed surplus*

| | February 28, 2019 |
|---|---|
| Balance, beginning of period | $ 9,421,036 |
| Share-based payments | 23,500 |
| Stock options exercised | (22,805) |
| Balance, end of period | $ 9,421,731 |

## 5. INCOME (LOSS) PER SHARE

The weighted average number of common shares outstanding for basic and diluted income (loss) per share is 87,442,903 (February 28, 2018 – 82,958,312).

In determining diluted loss per share, the weighted average number of shares outstanding for the period ended February 28, 2019 excluded nil (February 28, 2018 – 424,341) for stock options and warrants eligible for exercise where the average market price of the common shares for the year exceeds the exercise price because the result was anti-dilutive in both periods.

### 6. FINANCIAL INSTRUMENTS

*a) Categories of financial instruments*

The Company has classified its financial instruments as follows:

| | February 28, 2019 | August 31, 2018 |
|---|---|---|
| **Financial assets** | | |
| Cash and cash equivalents | $ 2,781,877 | $ 2,587,328 |
| Trade and other receivables | 646,172 | 702,406 |
| Deposits | 44,338 | 44,338 |
| **Financial liabilities** | | |
| Unearned revenue | 388,669 | 322,410 |
| Trade accounts payable and accrued liabilities | 760,353 | 606,701 |

*b) Foreign currency risk*

The follow tables provide an indication of the Company's exposure to changes in the value of the U.S. dollar relative to the Canadian dollar as at and for the periods ended February 28, 2019 and August 31, 2018. The analysis is based on financial assets and liabilities denominated in U.S. dollars at the statement of financial position date ("statement of financial position exposure"), and U.S. dollar denominated revenue and operating expenses during the year ("operating exposure").

| **Statement of financial position exposure** | U.S. dollars |
|---|---|
| **As at February 28, 2019** | |
| Cash and cash equivalents | $ 723,857 |
| Trade and other receivables | 188,387 |
| Trade accounts payable and accrued liabilities | (101,574) |
| Net statement of financial position exposure | $ 810,670 |

| **Statement of financial position exposure** | U.S. dollars |
|---|---|
| **As at August 31, 2018** | |
| Cash and cash equivalents | $ 533,542 |
| Trade and other receivables | 465,625 |
| Trade accounts payable and accrued liabilities | (218,173) |
| Net statement of financial position exposure | $ 780,994 |

**(Canadian dollars)**

Based on the Company's foreign currency exposure, as noted above, with other variables unchanged, a 5% change in the Canadian dollar against the US dollar as at February 28, 2019 would have impacted on comprehensive net loss by $40,533 (August 31, 2018 - $39,050).

*c) Credit risk*

The provision for doubtful accounts has been included in administrative costs in the Financial Statements and is net of any recoveries that were provided for in a prior period.

Trade receivables are included in trade and other receivables on the statements of financial position and consist of the following:

| | February 28, 2019 | August 31, 2018 |
|---|---|---|
| Trade and other receivables | | |
| Current | $ 309,119 | $ 177,882 |
| Past due but not impaired | | |
| Aged between 31 - 90 days | 238,792 | 217,103 |
| Aged between 91 - 120 days | 6,447 | 212,559 |
| Aged greater than 121 days | 93,935 | 536,056 |
| Total trade | 648,293 | 1,143,600 |
| Allowance for doubtful accounts | (2,121) | (441,194) |
| | $ 646,172 | $ 702,406 |

Reconciliation of allowance for doubtful accounts:

| | February 28, 2019 | August 31, 2018 |
|---|---|---|
| Balance, beginning of period | $ 441,194 | $ 13,006 |
| Increase in allowance | 728 | 21,848 |
| Net of write-offs and recoveries | (439,799) | 407,356 |
| Impact of foreign exchange | (2) | (1,016) |
| Balance, end of period | $ 2,121 | $ 441,194 |

The maximum exposure to credit risk at the reporting date by geographical region was (carrying amount):

**(Canadian dollars)**

| | February 28, 2019 | August 31, 2018 |
|---|---|---|
| North America | $ 118,803 | $ 178,792 |
| Middle East | 371,865 | 397,651 |
| Other International | 155,504 | 125,963 |
| | $ 646,172 | $ 702,406 |

## 7. RELATED PARTY TRANSACTION

*Expense transaction*

The Company entered into a Consulting Agreement with a director of the Company to provide certain services for a monthly fee of US $5,000 per month. During the three and six months ended February 28, 2019, the Company recorded $nil (February 28, 2018 – $18,857) and $6,599 (February 28, 2018 – $37,713) in consulting expense, with $nil (August 31, 2018 - $nil) included in accounts payable and accrued liabilities. Effective September 30, 2018, the Consulting Agreement was terminated.

## 8. SEGMENTED INFORMATION

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

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

(Canadian dollars)

*Geographic information*

| | Revenue three months ended | | Revenue six months ended | | Assets | |
|---|---|---|---|---|---|---|
| | February 28, 2019 | February 28, 2018 | February 28, 2019 | February 28, 2018 | February 28, 2019 | August 31, 2018 |
| North America | $ 55,451 | $ 117,049 | $ 145,632 | $ 212,897 | $ 3,762,553 | $ 3,673,999 |
| Middle East | 759,822 | 703,276 | 1,511,474 | 739,024 | 671,122 | 777,957 |
| Other International | 79,614 | 36,308 | 181,534 | 181,379 | 186,735 | 173,978 |
| | $ 894,887 | $ 856,633 | $ 1,838,640 | $ 1,133,300 | $ 4,620,410 | $ 4,625,934 |

For its geographic segments, the Company has allocated assets based on their physical location and revenue based on the location of the customer. Of the revenues recognized for the three months ended February 28, 2019 in the Middle East, revenues of $364,404 (February 28, 2018 - $396,754) were derived from the Kingdom of Saudi Arabia, revenues of $325,043 (February 28, 2018 - $221,633) were derived from Kuwait, and revenues of $70,374 (February 28, 2018 - $84,888) were derived from Oman. Of the revenues recognized for the six months ended February 28, 2019 in the Middle East, revenues of $651,418 (February 28, 2018 - $225,959) were derived from Kuwait, revenues of $622,463 (February 28, 2018 - $409,631) were derived from the Kingdom of Saudi Arabia, and revenues of $237,593 (February 28, 2018 - $97,067) were derived from Oman.

*Significant customers*

Sales in the three month period ended February 28, 2019 from the top three customers amounted to $420,663, $325,043 and $70,374 which represented 47.0%, 36.3% and 7.9% respectively, of total revenue. Sales in the three month period ended February 28, 2018, from the top three customers amounted to $396,754, $221,633 and $84,888 which represented 46.3%, 25.9% and 9.9% respectively, of total revenue.

Sales in the six month period ended February 28, 2019 from the top three customers amounted to $749,558, $651,418 and $237,593 which represented 40.8%, 35.4% and 12.9% respectively, of total revenue. Sales in the six month period ended February 28, 2018, from the top three customers amounted to $415,997, $225,959 and $97,067 which represented 36.7%, 19.9% and 8.6% respectively, of total revenue.