

*Unaudited Condensed Consolidated Interim Financial Statements of*

# **WAVEFRONT TECHNOLOGY SOLUTIONS INC.**

*Three and nine months ended May 31, 2016 and 2015*

## **TABLE OF CONTENTS**

### **CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

Condensed consolidated interim statements of financial position	1
Condensed consolidated interim statements of net loss and comprehensive loss	2
Condensed consolidated interim statements of changes in shareholders' equity	3
Condensed consolidated interim statements of cash flows	4

### **NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

Note 1	Nature of operations and corporate information	5
Note 2	Statement of compliance	5
Note 3	Impairment	7
Note 4	Property, plant and equipment	8
Note 5	Share capital	8
Note 6	Loss per share	10
Note 7	Related party transaction	10
Note 8	Segmented information	10
Note 9	Seasonality of operations	11

### **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 May 31, 2016 and 2015.

**WAVEFRONT TECHNOLOGY SOLUTIONS INC.**  
**Condensed Consolidated Interim Statements of Financial Position**  
**As at May 31, 2016 and August 31, 2015**  
(Canadian dollars)  
(Unaudited)

	<u>Note</u>	May 31, 2016	August 31, 2015
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents		\$ 5,817,448	\$ 6,706,591
Trade and other receivables		561,010	1,116,680
Inventories		444,840	433,087
Prepaid expenses and other current assets		110,764	532,389
		<u>6,934,062</u>	<u>8,788,747</u>
<b>NON-CURRENT ASSETS</b>			
Deposits		25,297	60,434
Property, plant and equipment	4	1,710,878	2,101,124
		<u>\$ 8,670,237</u>	<u>\$ 10,950,305</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>CURRENT LIABILITIES</b>			
Trade accounts payable and accrued liabilities		\$ 664,216	\$ 713,964
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	5 b	66,438,909	66,438,909
Share based payment reserve	5 d	8,975,761	8,958,915
Accumulated other comprehensive income		489,628	567,456
Deficit		(67,898,277)	(65,728,939)
		<u>8,006,021</u>	<u>10,236,341</u>
		<u>\$ 8,670,237</u>	<u>\$ 10,950,305</u>

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 nine month periods ended May 31, 2016 and 2015**

(Canadian dollars)

(Unaudited)

	Note	For the three months ended		For the nine months ended	
		May 31, 2016	May 31, 2015	May 31, 2016	May 31, 2015
Revenue		\$ 794,138	\$ 1,213,218	\$ 2,240,682	\$ 3,766,363
Cost of sales		318,266	631,020	930,131	1,515,968
General and administrative		763,555	902,893	2,559,099	2,958,441
Sales and marketing		158,106	236,666	403,043	990,043
Amortization and depreciation	4	140,145	164,374	414,483	778,372
Research and development		62,084	56,836	136,972	151,225
Impairment	3	-	-	-	5,023,475
		1,442,156	1,991,789	4,443,728	11,417,524
<b>OPERATING LOSS</b>		<b>(648,018)</b>	<b>(778,571)</b>	<b>(2,203,046)</b>	<b>(7,651,161)</b>
<b>OTHER (EXPENSES) INCOME</b>					
Financing costs		(30,013)	(3,551)	(13,395)	(3,991)
Financing income		15,394	17,106	47,103	83,927
		(14,619)	13,555	33,708	79,936
<b>NET LOSS</b>		<b>(662,637)</b>	<b>(765,016)</b>	<b>(2,169,338)</b>	<b>(7,571,225)</b>
<b>OTHER COMPREHENSIVE INCOME</b>					
Items that may be reclassified subsequently to net loss					
Translation (loss) gain on foreign operations		(116,584)	(48,702)	(77,828)	294,163
<b>COMPREHENSIVE LOSS</b>		<b>\$ (779,221)</b>	<b>\$ (813,718)</b>	<b>\$ (2,247,166)</b>	<b>\$ (7,277,062)</b>
<b>WEIGHTED AVERAGE NUMBER OF SHARES</b>					
Basic and diluted	6	82,956,240	82,956,240	82,956,240	82,956,240
<b>LOSS PER COMMON SHARE</b>					
Basic and diluted	6	\$ (0.01)	\$ (0.01)	\$ (0.03)	\$ (0.09)

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 nine month periods ended May 31, 2016 and 2015**

(Canadian dollars)  
(Unaudited)

	Share capital	Share based payment reserve	Accumulated other comprehensive (loss) income	Deficit	Total
<b>Balance at August 31, 2014</b>	66,438,909	8,879,699	115,754	(57,205,074)	\$ 18,229,288
Net Loss	-	-	-	(7,571,225)	(7,571,225)
Translation gain on foreign operations	-	-	294,163	-	294,163
Recognition of shared-based payments	-	62,105	-	-	62,105
<b>Balance at May 31, 2015</b>	66,438,909	8,941,804	409,917	(64,776,299)	\$ 11,014,331
Net Loss	-	-	-	(952,640)	(952,640)
Translation gain on foreign operations	-	-	157,539	-	157,539
Recognition of shared-based payments	-	17,111	-	-	17,111
<b>Balance at August 31, 2015</b>	66,438,909	8,958,915	567,456	(65,728,939)	10,236,341
Net Loss	-	-	-	(2,169,338)	(2,169,338)
Translation loss on foreign operations	-	-	(77,828)	-	(77,828)
Recognition of shared-based payments	-	16,846	-	-	16,846
<b>Balance at May 31, 2016</b>	\$ 66,438,909	\$ 8,975,761	\$ 489,628	\$ (67,898,277)	\$ 8,006,021

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**  
**Nine month periods ended May 31, 2016 and 2015**  
**(Canadian dollars)**  
**(Unaudited)**

	<u>Note</u>	<u>May 31,</u> <u>2016</u>	<u>May 31,</u> <u>2015</u>
<b>OPERATING ACTIVITIES</b>			
Net loss		\$ (2,169,338)	\$ (7,571,225)
Items not affecting cash			
Amortization and depreciation	4	414,483	778,372
Share-based payments		16,846	62,105
Loss (gain) on disposal of property, plant and equipment		13,389	(6,308)
Interest expense		1,734	3,991
Impairment	3	-	5,023,475
Impact of foreign translation		(66,785)	123,952
		(1,789,671)	(1,585,638)
Interest paid		(1,734)	(3,991)
Net change in non-cash working capital items		950,931	996,194
<b>Cash used in operating activities</b>		<b>(840,474)</b>	<b>(593,435)</b>
<b>INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment	4	(39,799)	(320,689)
Proceeds on disposal of property, plant and equipment		1,668	22,758
<b>Cash used in investing activities</b>		<b>(38,131)</b>	<b>(297,931)</b>
Foreign exchange (loss) gain on cash held in foreign currency		(10,538)	143,357
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(889,143)</b>	<b>(748,009)</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>		<b>6,706,591</b>	<b>8,085,603</b>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>		<b>\$ 5,817,448</b>	<b>\$ 7,337,594</b>
<b>CASH AND CASH EQUIVALENTS</b>			
Cash denominated in CDN		\$ 4,350,743	\$ 5,506,350
Cash denominated in USD		1,119,622	1,350,603
Foreign currency translation amount		347,083	480,641
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>		<b>\$ 5,817,448</b>	<b>\$ 7,337,594</b>

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

**WAVEFRONT TECHNOLOGY SOLUTIONS INC.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**Three and nine months ended May 31, 2016 and 2015**  
**(Canadian dollars)**  
**(Unaudited)**

---

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

Wavefront Technology Solutions Inc.'s ("Wavefront" or the "Company") business operates in a market where there is increasing demand to bring economically beneficial solutions to exploration and production companies (or "E&P" companies) to maximize oil and gas productivity. Central to Wavefront's broad portfolio of technologies is the fluid delivery process, Powerwave™. Powerwave is an effective method for augmenting Improved Oil Recovery ("IOR") and/or Enhanced Oil Recovery ("EOR") to increase ultimate oil recovery as well as increasing well productivity through more effective single well stimulation.

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**

These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting, as issued by the International Financial Reporting Standard ("IASB") and using accounting policies under International Financial Reporting Standards ("IFRS") for interim financial information. These unaudited condensed consolidated interim financial statements have been prepared using the same accounting policies and methods of computation as the annual consolidated financial statements for the fiscal year ended August 31, 2015, 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, 2015, as described in the unaudited condensed consolidated interim financial statements for the period ended May 31, 2016.

These unaudited condensed consolidated interim financial statements were approved for issue on July 27, 2016.

*a) Adoption of new and revised IFRS*

The Company has reviewed the impact of the new and revised accounting pronouncements outlined below, and has determined these standards did not have a material impact upon adoption on January 1, 2016.

In September 2014, the IASB issued narrow-scope amendments to a total of four standards as part of its annual improvements process, "Annual Improvements to IFRS (2012-2014)". The IASB uses the annual improvements process to make non-urgent but necessary amendments to IFRS. These amendments will apply prospectively for annual periods beginning on or after

**WAVEFRONT TECHNOLOGY SOLUTIONS INC.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**Three and nine months ended May 31, 2016 and 2015**  
**(Canadian dollars)**  
**(Unaudited)**

---

January 1, 2016; earlier adoption is permitted, in which case the related consequential amendment to other IFRSs would also apply.

*b) 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:

Leases (“IFRS 16”)

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

Income Taxes (“IAS12”)

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

Statement of Cash Flows (“IAS 7”)

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

Revenue from Contracts with Customers (“IFRS 15”)

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

**WAVEFRONT TECHNOLOGY SOLUTIONS INC.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**Three and nine months ended May 31, 2016 and 2015**  
**(Canadian dollars)**  
**(Unaudited)**

---

earlier application permitted. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

Share-based Payments (“IFRS 2”)

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

**3. IMPAIRMENT**

*Impairment tests performed as at May 31, 2016 – Powerwave, and Tubing Pumps and Bailers CGUs*

As at May 31, 2016, the Company assessed impairment indicators for the Company’s cash generating units (“CGUs”) and concluded no impairment indicators were present.

*Impairment tests performed as at May 31, 2015 – Powerwave, and Tubing Pumps and Bailers CGUs*

As at May 31, 2015, the Company identified a number of external and internal indicators of impairment.

For the nine months ended May 31, 2015, the Company’s total recorded non-cash impairment charge is \$5,023,475, which is allocated to the assets in the above noted CGUs consisting of a \$1,753,519 non-cash impairment charge to property, plant and equipment and \$3,269,956 non-cash impairment charge to intangible assets. Disclosures related to the key assumptions are included in the annual consolidated financial statements for the fiscal year ended August 31, 2015.

The Company assessed the fair value less cost to sell the assets of the Tubing Pump and Bailers CGU and determined that no impairment was required.

Management believes that the methodology used to impair the CGUs, which involves a significant number of judgments and estimates, provides a reasonable basis for determining such impairment. Many factors used in determining impairment are outside Management’s control and involve inherent uncertainty. Therefore, actual results could differ from those estimates.

**WAVEFRONT TECHNOLOGY SOLUTIONS INC.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**Three and nine months ended May 31, 2016 and 2015**  
**(Canadian dollars)**  
**(Unaudited)**

---

**4. PROPERTY, PLANT AND EQUIPMENT**

As at May 31, 2016	Tools and equipment	Computer, automotive and office equipment	Leasehold improvements	Total
<b>Cost</b>				
Balance at August 31, 2015	\$ 7,136,311	\$ 1,185,420	\$ 864,220	\$ 9,185,951
Additions	39,799	-	-	39,799
Disposals	(2,472,928)	(245,997)	(1,684)	(2,720,609)
Impact of foreign translation	(2,187)	(1,520)	-	(3,707)
Balance at May 31, 2016	4,700,995	937,903	862,536	6,501,434
<b>Accumulated depreciation</b>				
Balance at August 31, 2015	(5,834,664)	(955,636)	(294,527)	(7,084,827)
Depreciation	(274,732)	(55,908)	(83,843)	(414,483)
Disposals	2,471,282	234,270	-	2,705,552
Impact of foreign translation	2,109	1,093	-	3,202
Balance at May 31, 2016	(3,636,005)	(776,181)	(378,370)	(4,790,556)
<b>Net book value</b>				
Balance at May 31, 2016	\$ 1,064,990	\$ 161,722	\$ 484,166	\$ 1,710,878

Depreciation expense for the three and nine months ended May 31, 2016 was \$140,145 (May 31, 2015 - \$164,376) and \$414,483 (May 31, 2015 - \$536,470).

As at May 31, 2016 property, plant and equipment includes tools and equipment under construction of \$50,481 (August 31, 2015 - \$116,488), which are not being depreciated.

**5. SHARE CAPITAL**

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

*a) Authorized share capital*

Unlimited common shares without par value

The Company's issued share capital is as follows:

*b) Issued common shares*

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

**WAVEFRONT TECHNOLOGY SOLUTIONS INC.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**Three and nine months ended May 31, 2016 and 2015**  
**(Canadian dollars)**  
**(Unaudited)**

	<u>May 31, 2016</u>	
	<u>Number</u>	<u>Stated capital</u>
Balance, beginning of period	82,956,240	\$ 66,438,909
Balance, end of period	82,956,240	\$ 66,438,909

*c) Stock-based compensation plan*

The Company maintains an Employee, Director, Officer and Consultant Stock Option Plan under which the Company may grant incentive stock options for up to 10,771,558 shares of the Company at an exercise price 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 up to ten years and vest in equal tranches at three (3) month intervals over a period of eighteen (18) months.

Movements in stock options during the period

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

	<u>May 31, 2016</u>	
	<u>Number</u>	<u>Weighted average exercise price</u>
Outstanding, beginning of period	2,875,000	\$ 0.39
Expired	(530,000)	0.97
Outstanding, end of period	2,345,000	\$ 0.26

Subsequent to the reporting period 25,000 incentive stock options were terminated unexercised with an exercise price of \$0.38

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 nine months ended May 31, 2016, the Company incurred \$16,846 (May 31, 2015 - \$62,105) in compensation expense relating to outstanding stock options.

**WAVEFRONT TECHNOLOGY SOLUTIONS INC.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**Three and nine months ended May 31, 2016 and 2015**  
**(Canadian dollars)**  
**(Unaudited)**

---

*d) Share-based payment reserve*

	As at May 31, 2016
Balance, beginning of period	\$ 8,958,915
Share-based payments	16,846
<b>Balance, end of period</b>	<b>\$ 8,975,761</b>

**6. LOSS PER SHARE**

The weighted average number of common shares outstanding for basic and diluted loss per share is 82,956,240 (May 31, 2015 - 82,956,240).

In determining diluted loss per share, the weighted average number of shares outstanding for the periods ended May 31, 2016 and 2015 exclude all stock options eligible for exercise as the average market price of the common shares for the periods were less than the exercise price.

**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 \$3,000 per month. During the three and nine months ended May 31, 2016, the Company recorded \$12,026 (May 31, 2015 - \$10,678) and \$36,080 (May 31, 2015 - \$32,034), respectively, in consulting expense, with \$nil (August 31, 2015 - \$nil) included in accounts payable and accrued liabilities.

**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 components of the Company for which separate financial information is available and is evaluated regularly by the chief operating decision maker in allocating resources and assessing performance. The chief operating decision maker of the Company is the President and Chief Executive Officer. The Company has one group of similar products due to having a similar underlying technology, class of customers and economic characteristics.

**WAVEFRONT TECHNOLOGY SOLUTIONS INC.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**Three and nine months ended May 31, 2016 and 2015**  
**(Canadian dollars)**  
**(Unaudited)**

---

**9. SEASONALITY OF OPERATIONS**

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