

Unaudited Condensed Consolidated Interim Financial Statements of

WAVEFRONT TECHNOLOGY SOLUTIONS INC.

Three months ended November 30, 2018 and 2017

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 and going concern	5
Note 3	Property, plant and equipment	11
Note 4	Share capital	12
Note 5	Loss per share	14
Note 6	Financial instruments	14
Note 7	Related party transaction	16
Note 8	Segmented information	16

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company is disclosing that its auditors have not reviewed the unaudited condensed consolidated interim financial statements for the periods ended November 30, 2018 and 2017.

WAVEFRONT TECHNOLOGY SOLUTIONS INC.
Condensed Consolidated Interim Statements of Financial Position
As at November 30, 2018 and August 31, 2018
(Canadian dollars)
(Unaudited)

	<u>Note</u>	<u>November 30,</u> <u>2018</u>	<u>August 31,</u> <u>2018</u>
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		\$ 2,986,181	\$ 2,587,328
Trade and other receivables		436,974	702,406
Inventories	3	116,938	76,623
Prepaid expenses and other current assets		217,693	258,491
		3,757,786	3,624,848
NON-CURRENT ASSETS			
Deposits		53,699	44,338
Property, plant and equipment	3	918,734	956,748
		\$ 4,730,219	\$ 4,625,934
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Unearned revenue		267,372	166,359
Trade accounts payable and accrued liabilities		749,609	762,752
		\$ 1,016,981	\$ 929,111
SHAREHOLDERS' EQUITY			
Share capital	4 b	67,282,318	67,216,013
Warrants		484,481	484,481
Contributed surplus	4 d	9,412,296	9,421,036
Accumulated other comprehensive income		572,095	567,298
Deficit		(74,037,952)	(73,992,005)
		3,713,238	3,696,823
		\$ 4,730,219	\$ 4,625,934

Going concern 2 c

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

WAVEFRONT TECHNOLOGY SOLUTIONS INC.
Condensed Consolidated Interim Statements of Net Loss and
Comprehensive Loss
Three month period ended November 30, 2018 and 2017
(Canadian dollars)
(Unaudited)

	Note	For the three months ended November 30, 2018	November 30, 2017
Revenue		\$ 943,753	\$ 276,667
Cost of sales		84,829	84,190
Gross Profit		858,924	192,477
Loss on disposal of property, plant and equipment		934	-
General and administrative		703,599	724,083
Sales and marketing		161,349	209,479
Amortization and depreciation	3	44,701	70,568
Research and development		27,752	21,984
		938,335	1,026,114
OPERATING LOSS		(79,411)	(833,637)
OTHER (EXPENSES) INCOME			
Financing costs		(1,459)	(7,777)
Financing income		34,923	4,811
		33,464	(2,966)
NET LOSS		(45,947)	(836,603)
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified subsequently to net loss			
Translation gain on foreign operations		4,797	16,485
COMPREHENSIVE LOSS		\$ (41,150)	\$ (820,118)
WEIGHTED AVERAGE NUMBER OF SHARES			
Basic and diluted	5	87,442,903	82,956,240
LOSS PER COMMON SHARE			
Basic and diluted	5	\$ (0.001)	\$ (0.010)

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

WAVEFRONT TECHNOLOGY SOLUTIONS INC.
Condensed Consolidated Interim Statements of
Changes in Shareholders' Equity
Three month period ended November 30, 2018 and 2017
(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	-	-	-	-	(836,630)	(836,630)
Translation gain on foreign operations	-	-	-	16,485	-	32,970
Recognition of shared-based payments	-	-	22,908	-	-	22,908
Balance at November 30, 2017	66,438,909	-	9,386,640	564,809	(73,037,864)	\$ 3,352,494
Net Loss	-	-	-	-	(954,141)	(954,141)
Translation gain on foreign operations	-	-	-	2,489	-	2,489
Private placement	737,187	484,481	-	-	-	1,221,668
Exercise of options	39,917	-	(16,417)	-	-	23,500
Recognition of shared-based payments	-	-	50,813	-	-	50,813
Balance at August 31, 2018	67,216,013	484,481	9,421,036	567,298	(73,992,005)	\$ 3,696,823
Net Loss	-	-	-	-	(45,947)	(45,947)
Translation loss on foreign operations	-	-	-	4,797	-	4,797
Exercise of options	66,305	-	(22,805)	-	-	43,500
Recognition of shared-based payments	-	-	14,065	-	-	14,065
Balance at November 30, 2018	\$ 67,282,318	\$ 484,481	\$ 9,412,296	\$ 572,095	\$ (74,037,952)	\$ 3,713,238

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

WAVEFRONT TECHNOLOGY SOLUTIONS INC.
Condensed Consolidated Interim Statements of Cash Flows
Three month periods ended November 30, 2018 and 2017
(Canadian dollars)
(Unaudited)

	<u>Note</u>	<u>November 30,</u> <u>2018</u>	<u>November 30,</u> <u>2017</u>
OPERATING ACTIVITIES			
Net loss		\$ (45,947)	\$ (836,603)
Changes to loss not including cash			
Amortization and depreciation	3	44,701	70,568
Share-based payments	4 d	14,065	22,908
Interest expense		1,459	2,573
Loss on disposal of property, plant and equipment, and inventory		934	-
Impact of foreign translation		(17,276)	12,072
Change in inventory		(40,315)	(96)
Change in trade and other payables		(13,144)	147,240
Change in deposits		(9,361)	-
Interest paid		(1,459)	(2,573)
Change in prepaid expenses		40,798	(289,014)
Change in unearned revenue		101,013	4,059
Change in trade and other receivables		265,432	101,233
Cash from (used in) operating activities		340,900	(767,633)
Financing Activities			
Proceeds from exercise of options	4 b	43,500	-
Cash from in financing activities		43,500	-
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	3	(12,400)	(1,748)
Proceeds on disposal of property, plant and equipment		5,602	-
Cash used in investing activities		(6,798)	(1,748)
Foreign exchange gain on cash held in foreign currency		21,251	2,708
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		398,853	(766,673)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		2,587,328	2,444,249
CASH AND CASH EQUIVALENTS, END OF PERIOD		\$ 2,986,181	\$ 1,677,576
CASH AND CASH EQUIVALENTS			
Cash denominated in CDN		\$ 1,784,440	\$ 1,588,906
Cash denominated in USD		905,345	71,028
Foreign currency translation amount		296,395	17,642
CASH AND CASH EQUIVALENTS, END OF PERIOD		\$ 2,986,181	\$ 1,677,576

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

WAVEFRONT TECHNOLOGY SOLUTIONS INC.
Notes to the Condensed Consolidated Interim Financial Statements
Three months ended November 30, 2018 and 2017
(Canadian dollars)
(Unaudited)

1. NATURE OF OPERATIONS AND CORPORATE INFORMATION

Wavefront Technology Solutions Inc.'s ("Wavefront" or the "Company") 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, "PowerwaveTM", 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.

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(d).

These Financial Statements were approved for issue on January 28, 2019.

b) 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 \$166,359 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 \$4,059 to the statement of cash flows in the comparative period.

WAVEFRONT TECHNOLOGY SOLUTIONS INC.
Notes to the Condensed Consolidated Interim Financial Statements
Three months ended November 30, 2018 and 2017
(Canadian dollars)
(Unaudited)

c) 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.

At November 30, 2018, the Company had yet to achieve profitable operations, had an accumulated deficit of \$74,037,952 (August 31, 2018 - \$73,992,005), and for the first quarter ended November 30, 2018, had a net loss of \$45,947 (November 30, 2017 - \$836,603), but had an increase in cash and cash equivalents of \$398,853 (November 30, 2017 – a net decrease of \$766,673). 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 \$2,740,805 (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.

d) 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.

WAVEFRONT TECHNOLOGY SOLUTIONS INC.
Notes to the Condensed Consolidated Interim Financial Statements
Three months ended November 30, 2018 and 2017
(Canadian dollars)
(Unaudited)

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.

WAVEFRONT TECHNOLOGY SOLUTIONS INC.
Notes to the Condensed Consolidated Interim Financial Statements
Three months ended November 30, 2018 and 2017
(Canadian dollars)
(Unaudited)

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:

<i><u>Financial Assets / Liabilities</u></i>	IAS 39		IFRS 9	
	<i><u>Classification</u></i>	<i><u>Measurement</u></i>	<i><u>Classification</u></i>	<i><u>Measurement</u></i>
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.

WAVEFRONT TECHNOLOGY SOLUTIONS INC.
Notes to the Condensed Consolidated Interim Financial Statements
Three months ended November 30, 2018 and 2017
(Canadian dollars)
(Unaudited)

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, 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, they control the specific good or service before it is transferred to the end user or exploration and production company, in such cases, Wavefront recognizes revenue in the net amount. The Company acts as a principal for all potential contracts where in it contracts directly with the end user or exploration and production company, as it controls the specific good or service before it is transferred to the customer.

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.

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.

WAVEFRONT TECHNOLOGY SOLUTIONS INC.
Notes to the Condensed Consolidated Interim Financial Statements
Three months ended November 30, 2018 and 2017
(Canadian dollars)
(Unaudited)

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.

WAVEFRONT TECHNOLOGY SOLUTIONS INC.
Notes to the Condensed Consolidated Interim Financial Statements
Three months ended November 30, 2018 and 2017
(Canadian dollars)
(Unaudited)

Impacts on financial statements

The Company concluded with 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 reclassified unearned revenue in the statement of financial position. As at November 30, 2018 \$154,960 (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.

e) 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.

3. PROPERTY, PLANT AND EQUIPMENT

As at November 30, 2018	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	12,400	-	-	12,400
Disposals	-	(65,362)	-	(65,362)
Impact of foreign translation	3,486	4,510	-	7,996
Balance at November 30, 2018	3,555,315	731,655	591,147	4,878,117
Accumulated depreciation				
Balance at August 31, 2018	(2,788,136)	(735,309)	(442,890)	(3,966,335)
Depreciation	(27,181)	(3,187)	(14,333)	(44,701)
Disposals	-	58,826	-	58,826
Impact of foreign translation	(3,220)	(3,953)	-	(7,173)
Balance at November 30, 2018	(2,818,537)	(683,623)	(457,223)	(3,959,383)
Net book value				
Balance at November 30, 2018	\$ 736,778	\$ 48,032	\$ 133,924	\$ 918,734

WAVEFRONT TECHNOLOGY SOLUTIONS INC.
Notes to the Condensed Consolidated Interim Financial Statements
Three months ended November 30, 2018 and 2017
(Canadian dollars)
(Unaudited)

Depreciation expense for the nine months ended November 30, 2018 was \$44,701 (November 30, 2017 - \$70,568).

As at November 30, 2018 property, plant and equipment includes tools and equipment under construction of \$266,008 (August 31, 2018 - \$282,780), which is not being depreciated.

As at August 31, 2018 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 \$220,409 (August 31, 2018 - \$220,409) of raw material and consumable inventory to equipment under construction within the tools and equipment asset segment.

As at November 30, 2018, 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.

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:

	November 30, 2018	
	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.

WAVEFRONT TECHNOLOGY SOLUTIONS INC.

Notes to the Condensed Consolidated Interim Financial Statements

Three months ended November 30, 2018 and 2017

(Canadian dollars)

(Unaudited)

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.

Movements in stock options during the period

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

	November 30, 2018	
	Number	Weighted average exercise price
Outstanding, beginning of period	3,900,000	\$ 0.26
Exercised	(200,000)	(0.22)
Outstanding, end of period	3,700,000	\$ 0.26

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 November 30, 2018, the Company incurred \$14,065 (November 30, 2017 - \$22,908) in compensation expense relating to outstanding stock options.

d) *Contributed surplus*

	November 30, 2018
Balance, beginning of period	\$ 9,421,036
Share-based payments	14,065
Stock options exercised	(22,805)
Balance, end of period	\$ 9,412,296

WAVEFRONT TECHNOLOGY SOLUTIONS INC.
Notes to the Condensed Consolidated Interim Financial Statements
Three months ended November 30, 2018 and 2017
(Canadian dollars)
(Unaudited)

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 (November 30, 2017 – 82,956,240).

In determining diluted loss per share, the weighted average number of shares outstanding for the period ended November 30, 2018 excluded nil (November 30, 2017 – 520,382) 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:

	November 30, 2018	August 31, 2018
Financial assets		
Cash and cash equivalents	\$ 2,986,181	\$ 2,587,328
Trade and other receivables	436,974	702,406
Deposits	53,699	44,338
Financial liabilities		
Unearned revenue	267,372	166,359
Trade accounts payable and accrued liabilities	749,609	762,752

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 November 30, 2018 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").

	<u>U.S. dollars</u>
Statement of financial position exposure	
As at November 30, 2018	
Cash and cash equivalents	\$ 905,345
Trade and other receivables	287,219
Trade accounts payable and accrued liabilities	(90,773)
Net statement of financial position exposure	\$ 1,101,791

WAVEFRONT TECHNOLOGY SOLUTIONS INC.
Notes to the Condensed Consolidated Interim Financial Statements
Three months ended November 30, 2018 and 2017
(Canadian dollars)
(Unaudited)

	<u>U.S. dollars</u>
Statement of financial position exposure	
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

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 November 30, 2018 would have impacted on comprehensive net loss by \$55,090 (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:

	<u>November 30, 2018</u>	<u>August 31, 2018</u>
Trade and other receivables		
Current	\$ 256,649	\$ 177,882
Past due but not impaired		
Aged between 31 - 90 days	132,149	217,103
Aged between 91 - 120 days	-	212,559
Aged greater than 121 days	48,596	536,056
Total trade	437,394	1,143,600
Allowance for doubtful accounts	(420)	(441,194)
	\$ 436,974	\$ 702,406

Reconciliation of allowance for doubtful accounts:

WAVEFRONT TECHNOLOGY SOLUTIONS INC.

Notes to the Condensed Consolidated Interim Financial Statements

Three months ended November 30, 2018 and 2017

(Canadian dollars)

(Unaudited)

	November 30, 2018	August 31, 2018
Balance, beginning of period	\$ 441,194	\$ 13,006
Increase in allowance	(1,117)	21,848
Net of write-offs and recoveries	(439,663)	407,356
Impact of foreign exchange	6	(1,016)
Balance, end of period	\$ 420	\$ 441,194

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

	November 30, 2018	August 31, 2018
North America	\$ 129,601	\$ 178,792
Middle East	172,122	397,651
Other International	135,251	125,963
	\$ 436,974	\$ 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 months ended November 30, 2018, the Company recorded \$6,541 (November 30, 2017 – \$18,835) in consulting expense, with \$nil (August 31, 2017 - \$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.

WAVEFRONT TECHNOLOGY SOLUTIONS INC.

Notes to the Condensed Consolidated Interim Financial Statements

Three months ended November 30, 2018 and 2017

(Canadian dollars)

(Unaudited)

Geographic information

	Revenue		Assets	
	November 30, 2018	November 30, 2017	November 30, 2018	August 31, 2018
North America	\$ 90,181	\$ 95,847	\$ 3,855,581	\$ 3,673,999
Middle East	751,652	23,570	586,760	777,957
Other International	101,920	157,250	287,878	173,978
	<u>\$ 943,753</u>	<u>\$ 276,667</u>	<u>\$ 4,730,219</u>	<u>\$ 4,625,934</u>

For its geographic segments, the Company has allocated assets based on their physical location and revenue based on the location of the customer.

Significant customers

Sales in the period ended November 30, 2018 from the top three customers amounted to \$328,895, \$326,375 and \$167,219 which represented 34.9%, 34.6% and 17.7% respectively, of total revenue. Sales in the period ended November 30, 2017, from the top three customers amounted to \$71,217, \$47,899 and \$29,879 which represented 25.7%, 17.3% and 10.8% respectively, of total revenue.