

Consolidated Financial Statements of

WAVEFRONT TECHNOLOGY SOLUTIONS INC.

August 31, 2014 and 2013

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CONSOLIDATED FINANCIAL STATEMENTS

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Wavefront Technology Solutions Inc.

We have audited the accompanying consolidated financial statements of Wavefront Technology Solutions Inc., which comprise the consolidated statement of financial position as at August 31, 2014, and the consolidated statement of net loss and comprehensive loss, consolidated statement of changes in shareholders' equity and consolidated statement of cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Wavefront Technology Solutions Inc. as at August 31, 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other matter

The consolidated financial statements of Wavefront Technology Solutions Inc. as at and for the year ended August 31, 2013 were audited by another auditor who expressed an unmodified opinion on those statements on December 19, 2013.

Deloitte LLP

Chartered Accountants

December 17, 2014
Edmonton, AB

WAVEFRONT TECHNOLOGY SOLUTIONS INC.
Consolidated Statements of Financial Position
As at August 31, 2014 and August 31, 2013
(Canadian dollars)

| | Note | August 31, 2014 | August 31, 2013 |
|--|------|--------------------|--------------------|
| ASSETS | | | |
| CURRENT ASSETS | | | |
| Cash and cash equivalents | 7 | \$ 8,085,603 | \$ 11,043,731 |
| Trade and other receivables | | 2,028,469 | 1,962,466 |
| Inventories | | 495,856 | 515,520 |
| Prepaid expenses and other current assets | | 377,574 | 229,896 |
| | | 10,987,502 | 13,751,613 |
| NON-CURRENT ASSETS | | | |
| Deposits | | 89,492 | 115,112 |
| Property, plant and equipment | 8 | 4,696,068 | 5,456,975 |
| Intangible assets | 9 | 3,507,708 | 3,947,578 |
| Goodwill | 10 | - | 1,222,217 |
| | | \$ 19,280,770 | \$ 24,493,495 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| CURRENT LIABILITIES | | | |
| Trade accounts payable and accrued liabilities | | \$ 1,051,482 | \$ 1,281,372 |
| SHAREHOLDERS' EQUITY | | | |
| Share capital | 11b | 66,438,909 | 66,438,909 |
| Share based payment reserve | 11d | 8,879,699 | 8,691,895 |
| Accumulated other comprehensive income | | 115,754 | 76,086 |
| Deficit | | (57,205,074) | (51,994,767) |
| | | 18,229,288 | 23,212,123 |
| | | \$ 19,280,770 | \$ 24,493,495 |

The accompanying notes are an integral part of the consolidated financial statements.

APPROVED BY THE BOARD

"Mark Bernard" (signed) Director

"Steve Percy" (signed) Director

WAVEFRONT TECHNOLOGY SOLUTIONS INC.
Consolidated Statements of Net Loss and Comprehensive Loss
Years ended August 31, 2014 and August 31, 2013
(Canadian dollars)

| | Note | August 31, 2014 | August 31, 2013 |
|---|-------------|-----------------------|-----------------------|
| Revenue | 12 | \$ 5,879,549 | \$ 5,909,950 |
| Cost of sales | 6 | 1,868,713 | 1,545,305 |
| General and administrative | | 4,615,644 | 5,149,781 |
| Sales and marketing | | 1,457,199 | 1,268,459 |
| Amortization, depreciation, and depletion | | 1,735,960 | 1,776,384 |
| Research and development | | 186,519 | 365,736 |
| Impairment | 5, 6, 8, 10 | 1,338,584 | 674,091 |
| | 13 | 11,202,619 | 10,779,756 |
| OPERATING LOSS | | (5,323,070) | (4,869,806) |
| OTHER (EXPENSES) INCOME | | | |
| Financing costs | 13 | (1,815) | (6,368) |
| Financing income | 13 | 114,578 | 131,337 |
| | | 112,763 | 124,969 |
| NET LOSS | | (5,210,307) | (4,744,837) |
| OTHER COMPREHENSIVE INCOME | | | |
| Items that may be reclassified subsequently to net loss | | | |
| Translation gain on foreign operations | | 39,668 | 76,497 |
| COMPREHENSIVE LOSS | | \$ (5,170,639) | \$ (4,668,340) |
| WEIGHTED AVERAGE NUMBER OF SHARES | | | |
| Basic and diluted | 15 | 82,956,240 | 82,956,240 |
| LOSS PER COMMON SHARE | | | |
| Basic and diluted | 15 | \$ (0.06) | \$ (0.06) |

The accompanying notes are an integral part of the consolidated financial statements.

WAVEFRONT TECHNOLOGY SOLUTIONS INC.
Consolidated Statements of Changes in Shareholders' Equity
For the years ended August 31, 2014 and August 31, 2013
(Canadian dollars)

| | Share capital | Share based payment reserve | Accumulated other comprehensive (loss) income | Deficit | Total |
|--|------------------|--------------------------------|---|-----------------|---------------|
| Balance at August 31, 2012 | \$ 66,438,909 | \$ 8,582,757 | \$ (411) | \$ (47,249,930) | \$ 27,771,325 |
| Net Loss | - | - | - | (4,744,837) | (4,744,837) |
| Translation gain on foreign operations | - | - | 76,497 | - | 76,497 |
| Recognition of shared-based payments | - | 109,138 | - | - | 109,138 |
| Balance at August 31, 2013 | 66,438,909 | 8,691,895 | 76,086 | (51,994,767) | 23,212,123 |
| Net Loss | - | - | - | (5,210,307) | (5,210,307) |
| Translation gain on foreign operations | - | - | 39,668 | - | 39,668 |
| Recognition of shared-based payments | - | 187,804 | - | - | 187,804 |
| Balance at August 31, 2014 | \$ 66,438,909 | \$ 8,879,699 | \$ 115,754 | \$ (57,205,074) | \$ 18,229,288 |

The accompanying notes are an integral part of the consolidated financial statements.

WAVEFRONT TECHNOLOGY SOLUTIONS INC.
Consolidated Statements of Cash Flow
As at August 31, 2014 and August 31, 2013
(Canadian dollars)

| | <u>Note</u> | <u>August 31,</u> <u>2014</u> | <u>August 31,</u> <u>2013</u> |
|--|-------------|----------------------------------|----------------------------------|
| OPERATING ACTIVITIES | | | |
| Net loss | | \$ (5,210,307) | \$ (4,744,837) |
| Items not affecting cash | | | |
| Amortization, depreciation, depletion and accretion expenses | | 1,735,960 | 1,776,384 |
| Impairment of goodwill | 10 | 1,222,217 | - |
| Share-based payments | 11d | 187,804 | 109,138 |
| Impairment of property, plant and equipment | 6, 8, 10 | 116,367 | 674,091 |
| Interest expense | 13 | 1,815 | 6,930 |
| Write-down of intangible assets | 9 | - | 18,627 |
| Gain on disposal of property, plant and equipment | | (17,118) | (64,361) |
| Unrealized foreign exchange (gain) loss | | (34,152) | 4,838 |
| | | (1,997,414) | (2,219,190) |
| Interest paid | 13 | (1,815) | (6,930) |
| Net change in non-cash working capital items | 18 | (398,286) | (588,391) |
| Cash used in operating activities | | (2,397,515) | (2,814,511) |
| INVESTING ACTIVITIES | | | |
| Purchase of property, plant and equipment | 8 | (566,170) | (1,257,617) |
| Proceeds on disposal of property, plant and equipment | | 22,345 | 72,165 |
| Additions to intangible assets | 9 | (84,351) | (172,190) |
| Cash used in investing activities | | (628,176) | (1,357,642) |
| Foreign exchange gain on cash held in foreign currency | | 67,563 | 46,600 |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | | (2,958,128) | (4,125,553) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | | 11,043,731 | 15,169,284 |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | | \$ 8,085,603 | \$ 11,043,731 |

The accompanying notes are an integral part of the consolidated financial statements.

WAVEFRONT TECHNOLOGY SOLUTIONS INC.

Notes to the Consolidated Financial Statements

August 31, 2014 and 2013

(Canadian dollars)

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 core technologies is the fluid delivery process, Powerwave™ that encompasses the life cycle of a client's post exploration operations. Powerwave is an effective method for: mature field revitalization (enhanced oil recovery or "EOR"), increasing well productivity through well stimulation, and performance drilling.

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. BASIS OF PRESENTATION

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

These consolidated financial statements were authorized by the Board of Directors on December 17, 2014.

Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, the Company's functional currency, as that is the currency of the primary economic environment in which the Company operates.

3. SIGNIFICANT ACCOUNTING POLICIES

These accounting policies have been applied consistently by the Company and entities controlled by the Company.

Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following material items in the statements of financial position:

WAVEFRONT TECHNOLOGY SOLUTIONS INC.

Notes to the Consolidated Financial Statements

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(Canadian dollars)

- Financial instruments at fair value through profit or loss measured at fair value;
- Available-for-sale financial assets are measured at fair value; and
- Liabilities for cash-settled share-based payment arrangements are measured at fair value.

These consolidated financial statements were prepared on a going concern basis.

Principles of consolidation

These consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its wholly owned subsidiaries). 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 subsidiaries 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.

Jointly controlled assets

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. Joint control is the sharing of control under contractual agreement, such that significant operating and financing decisions require the unanimous consent of the parties sharing control. The Company's oilfield activities include a jointly controlled asset whereby a contractual arrangement had been entered into without establishing a separate entity. Each venturer had control over its share of future economic benefits through its share of the jointly controlled assets. These consolidated financial statements include the Company's share of assets and liabilities and a proportionate share of the relevant revenues and related costs, classified according to their nature. The Company disposed of its interests during the year (Note 6).

Foreign currency translation

Translation of foreign entities

The functional currency of the Company's foreign subsidiary is the U.S. dollar which is the currency of the primary economic environment in which it operates. Assets and liabilities of the U.S. subsidiary are translated into Canadian dollars at the closing rate at the date of the statement of financial position. Revenues and expenses are translated at the average rate for the period. Gains or losses on translation of foreign operations are recognized in other comprehensive income as cumulative translation adjustments.

WAVEFRONT TECHNOLOGY SOLUTIONS INC.

Notes to the Consolidated Financial Statements

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(Canadian dollars)

Translation of transactions and balances

Foreign currency transactions are translated into Canadian dollars by applying exchange rates in effect at the transaction date. At each reporting period end, assets and liabilities denominated in foreign currencies are converted to Canadian dollars at rates of exchange prevailing on that date. Gains and losses on exchange differences are recognized in the statement of net loss.

Cash and cash equivalents

Cash and cash equivalents are comprised of cash on deposit, net of cheques issued in excess of cash on deposit; and, balances held in short-term, liquid investments with original maturities of three months or less.

Inventories

Inventories are recorded at the lower of cost, as determined on weighted average basis and net realizable value.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Where necessary, the carrying amounts of inventories are adjusted for obsolete, slow-moving and defective inventories. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in net realizable value because of changed economic circumstances, the amount of the write-down is reversed (i.e. the reversal is limited to the amount of the original write-down) so that the new carrying amount is the lower of the cost and the revised net realizable value.

During the year ended August 31, 2014 inventories consumed and included in cost of sales amounted to \$167,319 (August 31, 2013 - \$283,164).

Property, plant and equipment

Property, plant and equipment are recorded at cost less accumulated depreciation and accumulated impairment losses. The initial cost of an asset comprises its purchase price or construction costs, any costs directly attributable to bringing the asset into operation, the initial decommissioning provision, and borrowing costs for qualified assets. The purchase price or construction cost is the aggregate amount paid and the fair value of any consideration given to acquire the asset. The cost of self-constructed assets includes the costs of materials and direct labour.

The cost of replacing a part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized and included in profit or loss. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

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Notes to the Consolidated Financial Statements

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(Canadian dollars)

Depreciation is recognized so as to write off the cost of assets less their residual values over their estimated useful lives, when the assets are available for use. The estimated useful lives and related depreciation methods are:

| | |
|--|--|
| Oilfield property, plant and equipment | Units of production |
| Leasehold improvements | Straight line over the term of the lease |
| Tools and equipment | 20% to 100% declining balance |
| Computer equipment | 30% declining balance |
| Automotive equipment | 30% declining balance |
| Office equipment | 20% declining balance |

Where components of an item of property, plant and equipment, meeting the recognition criteria of an asset, have different useful lives, they are accounted for as separate items of property, plant and equipment.

The gain or loss on disposal or retirement of an item of property, plant and equipment is determined as the difference between the net sale proceeds and the carrying amount of the asset and is recognized in profit or loss in the period the asset is derecognized.

Development and production costs (oilfield property, plant and equipment)

Development and production expenditures

Items of property and equipment, which include petroleum and natural gas development and production assets, are measured at cost (including directly attributable general and administrative costs) less accumulated depletion and depreciation and accumulated impairment losses. Costs include lease acquisition, drilling and completion, production facilities, decommissioning costs, and geological and geophysical costs directly attributable to development and production activities, net of any government programs.

When significant parts of an item of property and equipment, including oil and gas properties, have different useful lives, they are accounted for as separate items (major components). Costs related to unsuccessful development wells or damaged wells are expensed immediately as losses on disposal.

Subsequent costs

Costs incurred subsequent to development and production that are significant are recognized as oil and gas assets only when they increase the future economic benefits embodied in the specific assets to which they relate. All other expenditures are recognized in income as incurred. Such capitalized oil and gas interests generally represent costs incurred in developing proved and probable reserves and bringing in or enhancing production from such reserves, and are accumulated on a field or area basis. The carrying amount of any replaced or sold component is derecognized. The costs of day-to-day servicing of property and equipment are recognized in income as incurred.

WAVEFRONT TECHNOLOGY SOLUTIONS INC.

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(Canadian dollars)

Depletion and depreciation

The net carrying value of oil and gas properties is depleted using the units of production method by reference to the ratio of production in the period to the related proved and probable reserves, taking into account estimated future development costs necessary to bring those reserves into production. Future development costs are estimated taking into account the level of development required to produce reserves. These estimates are reviewed by independent reserve engineers at least annually. Major development projects are not depleted until production commences.

Goodwill

Goodwill represents the excess of the purchase price of a business acquisition over the estimated fair value of the net assets acquired, including tangible and identifiable intangible assets, at the date of acquisition. Goodwill is not amortized but is tested for impairment annually or more frequently if events or changes in circumstances indicate a potential impairment.

Intangible assets

Acquired intangible assets

Intangible assets acquired individually or as part of a group of other assets are recorded at cost less accumulated amortization and accumulated impairment losses. Amortization is provided over the estimated useful life of the assets. The estimated useful life and amortization method are reviewed annually, with the effect of any changes in estimate being accounted for on a prospective basis. Amortization has been calculated using the following annual rates and methods:

| | |
|-------------------|--|
| Acquired licenses | Straight-line basis over the underlying contractual rights or patent life (4 to 8 years) |
| Patents | Straight-line basis over 4 to 18 years |
| Software | 100% declining balance |

Internally generated intangible assets - Research and development

As at August 31, 2014 and 2013, no development costs have been capitalized. Expenditures on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, are recognized in profit or loss as an expense as incurred.

Revenue recognition

Sale of goods

Revenue from the sale of goods is recognized when the Company has transferred to the buyer the significant risks and rewards of ownership of the goods, the Company retains neither the continuing managerial involvement nor effective control over the goods sold, the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the Company, and the costs incurred or to be incurred with respect of the transaction can be

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(Canadian dollars)

measured reliably. Revenue is reduced for estimated warranty claims, customer returns, rebates and other similar allowances.

Rendering of services

Revenue from a contract to provide services is recognized in the accounting period in which the services are rendered, by reference to the stage of completion of the specific transaction and assessed on the basis of the actual service provided as a proportion of the total services to be provided. Revenues are only recognized where the amount can be measured reliably, it is probable that the economic benefit associated with the transaction will flow to the Company and the costs incurred from the transaction and costs to complete can be measured reliably.

Rentals, royalties and license

Rentals, royalty and license revenue is recognized on an accrual basis in accordance with the substance of the relevant agreement (provided that it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably).

Production fee and operator revenue

Revenue associated with the production and sale of crude oil owned by the Company are recognized in the period title passes to the external party provided that it is probable that the economic benefits will flow to the Company and the amount of the revenue can be measured reliably.

Share-based payments

The Company has an equity-settled share-based payment plan for certain employees and others providing similar services as described in Note 11(c). The fair value of a stock option is calculated at the date of grant and is expensed over the vesting period of those stock options with a corresponding entry to share-based payment reserve. The Company uses the Black-Scholes model to calculate the fair value of stock options issued, which requires certain assumptions be made at the time the stock options are awarded, including the expected life of the stock option, the expected number of granted stock options that will vest and the expected future volatility of the stock. The fair value of stock options is only re-measured if there is a modification to the terms of the stock options, such as a change in exercise price or legal life.

Any consideration paid by stock option holders for the purchase of stock, together with any amount previously recognized in contributed surplus are credited to issued share capital. If plan entitlements are repurchased from the holder, the consideration paid is charged to deficit. The Company has no cash-settled instruments.

Employee benefits

The costs of all short-term employee benefits are measured on an undiscounted basis and are expensed during the period in which the employee renders the related service. A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if

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the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain.

A contingent liability is disclosed where the existence of an obligation will only be confirmed by future events or where the amount of the obligation cannot be measured with reasonable reliability. Contingent assets are not recognized, but are disclosed where an inflow of economic benefits is probable.

Onerous contracts

Present obligations arising under onerous contracts are recognized and measured as provisions. An onerous contract is considered to exist where the Company has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received. The Company is not party to any onerous contracts at August 31, 2014 and 2013.

Income taxes

The Company follows the liability method of accounting for income taxes.

Under this method, deferred tax is recognized on any temporary difference between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable earnings.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized and the liability is settled based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amounts of its assets and liabilities. The effect of a change in the enacted or substantively enacted tax rates is recognized in net earnings and comprehensive earnings (loss) or in equity depending on the item to which the adjustment relates.

Deferred tax is recognized on temporary differences arising from investments in subsidiaries, except in the case where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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(Canadian dollars)

Deferred tax assets are recognized to the extent future recovery is probable. At each reporting period end, deferred tax assets are reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill or the initial recognition of other assets and liabilities in a transaction which is not a business combination and, at the time of the transaction, affects neither accounting net earnings nor taxable earnings.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis or the tax assets and liabilities will be realized simultaneously.

The Company recognizes income tax benefits or liabilities related to uncertain tax positions to the extent they are more likely than not to be realized or settled.

Leases

Leases in terms of which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value at the inception of the lease and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. The corresponding liability to the lessor is included in the consolidated statements of financial position as long term debt.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss.

All other leases are operating leases, whereby the leased assets are not recognized in the Company's statements of financial position. Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Share capital

Common shares are classified as equity. Equity instruments issued by the Company are recorded at proceeds received, net of direct issue costs.

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Segment reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenues or incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components. Operating segments are identified on the basis of internal reports about components of the Company that are regularly reviewed by the Management Team acting as the key decision maker in order to allocate resources to the segments and to assess their performance, and for which discrete financial information is available.

Loss per share

The Company presents basic and diluted loss per share ("EPS") for its common shares. Basic EPS is calculated by dividing the profit or loss attributable to the common shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for the Company's own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to the common shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential common shares, including share options granted to employees and directors and shares related to convertible debentures, assuming that all of the debenture holders converted as allowed.

The average market value of the Company's shares for purposes of calculating the dilutive effect of share options was based on quoted market prices for the period during which the options were outstanding.

Financial instruments

Financial assets and liabilities, including derivatives, are recognized on the consolidated statements of financial position when the Company becomes a party to the contractual provisions of the financial instrument or derivative contract. Financial instruments are required to be initially measured at fair value and are subsequently accounted for based on their classification as described below. The classification depends on the purpose for which the financial instruments were acquired and their characteristics. Except in very limited circumstances, the classification is not changed subsequent to initial recognition.

The Company's financial instruments are classified in the following categories:

Financial assets

An instrument is classified as fair value through profit or loss ("FVTPL") if it is held-for-trading or is designated as such upon initial recognition. A financial asset is classified as held-for-trading if acquired principally for the purpose of selling in the short-term or if so designated by management. Financial instruments included in this category are initially recognized at fair value and transactions costs are taken directly to earnings along with gains and losses arising from changes in fair value. As at August 31, 2014 and 2013 the Company had no financial assets recorded at FVTPL.

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(Canadian dollars)

Financial assets designated as loans and receivables are measured at amortized cost. Cash and cash equivalents and trade and other receivables are classified as loans and receivables and are initially recognized at fair value including direct and incremental transaction costs and are subsequently measured at amortized cost, using the effective interest method, reduced for any impairment losses. A provision for impairment of trade accounts receivable is established when there is objective evidence that an amount will not be collectible or, in the case of long-term receivables, if there is evidence that the amount will not be collectible in accordance with payment terms.

Financial assets are classified as held-to-maturity (“HTM”) if the Company has the positive intent and the ability to hold the asset to maturity. Held-to-maturity financial assets are initially recognized at fair value plus any transaction costs directly attributable to the asset. As at August 31, 2014 and 2013, the Company has no financial assets recorded as HTM.

Financial liabilities

Trade accounts payable and accrued liabilities are initially recognized at fair value including direct and incremental transaction costs and are subsequently measured at amortized cost using the effective interest method. Financial liabilities designated as other liabilities are measured at amortized cost.

Fair value hierarchy

The Company values instruments carried at fair value using quoted market prices, where available. Quoted market prices represent a Level 1 valuation. When quoted market prices are not available, the Company maximizes the use of observable inputs within valuation models. When all significant inputs are observable, the valuation is classified as Level 2. Valuations that require the significant use of unobservable inputs are considered Level 3. The Company has no financial assets recorded at fair value at August 31, 2014 and 2013.

Impairment of financial assets

A financial asset not classified at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event will have a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not otherwise consider, indications that a debtor or issuer will enter bankruptcy, or the disappearance of an active market for a security. In addition, for an investment in an equity security classified as available-for-sale, a significant or prolonged decline in its fair value below its cost is considered objective evidence of impairment.

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The Company considers evidence of impairment for receivables and held-to-maturity investment securities at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

In assessing collective impairment the Company uses historical trends of probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment of non-financial assets

The carrying amounts of the Company's non-financial assets, other than inventories and deferred tax assets for which separate processes apply, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For intangible assets that have an indefinite useful life or intangible assets that are not yet available for use, the recoverable amount is estimated each year in the fourth quarter.

The recoverable amount of an asset or cash-generating unit ("CGU") is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (CGU). For the purpose of goodwill impairment testing, goodwill acquired in a business combination is allocated to the CGU, or the group of CGUs, that is expected to benefit from the synergies of the combination. This allocation is subject to an operating segment ceiling and reflects the lowest level at which that goodwill is monitored for internal reporting purposes.

The Company's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGUs, and then to reduce the carrying amounts of the other assets in the CGUs on a pro rata basis.

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4. CHANGES IN ACCOUNTING POLICIES AND NEW STANDARDS ISSUED BUT NOT YET ADOPTED

a) *Changes in accounting policies*

The following standards, that are applicable to the Company, have been adopted for the first time effective September 1, 2013:

Amendments to IAS 1 – Financial Statement Presentation

IASB issued amendments to IAS 1, “Presentation of Financial Statements” to improve the consistency and clarity of items presented in other comprehensive income. The amendments require that items presented in other comprehensive income be grouped into two categories: i) items that may be reclassified into profit or loss at a future date, and ii) items that will never be reclassified into profit or loss. This amendment affects presentation only and has no impact on the Company's financial position or performance.

Consolidated Financial Statements “IFRS 10”

Effective September 1, 2013, the Company adopted IFRS 10. This standard introduces a new control model that is applicable to all investees; among other things, it requires the consolidation of an investee if the Company controls the investee on the basis of de facto circumstances. IFRS 10 provides additional guidance to assist in the determination of control where this is difficult to assess.

Fair Value Measurement “IFRS 13”

Effective September 1, 2013, the Company adopted IFRS 13, which establishes a single source of guidance for fair value measurements when fair value is permitted or required by IFRS. The standard also requires enhanced disclosures when fair value is applied.

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:

Financial Instruments: Classification of Measurement (“IFRS 9”)

IFRS 9, *Financial Instruments*, will replace IAS 39, *Financial Instruments: Recognition and Measurement*. The new standard includes guidance on recognition and derecognition of financial assets and financial liabilities, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

Revenue from Contracts with Customers (“IFRS 15”)

On May 28, 2014, the International Accounting Standards Board and the Financial Accounting Standards Board jointly issued IFRS 15 *Revenue from Contracts with Customers*. The core principle

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of the new Standard is for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. The new Standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively, and improve guidance for multiple-element arrangements. IFRS 15 is effective for annual periods beginning on or after January 1, 2017. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

Levies (“IFRIC 21”)

In May 2014, the International Accounting Standards Board, issued IFRIC Interpretation 21, Levies. The interpretation clarifies that an entity recognizes a liability for a levy when the activity triggers a payment. It also clarifies that levy liability is accrued progressively only if the activity triggers payment occurs over a period of time. IFRS 21 is effective for annual periods beginning on or after January 1, 2014. This amendment has no impact on the Company’s financial position or performance.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that may affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to these consolidated financial statements are as follows:

Impairment of non-financial assets

The Company assesses the carrying value of non-financial assets, including property, plant and equipment, and intangible assets subject to depreciation and amortization at each reporting date to determine whether there are any indicators that the carrying amounts of the assets may be impaired. The Company follows IAS 36 to determine if there are impairment indicators if impairment. This determination requires significant judgement.

The recoverable amounts of cash-generating units have been determined based on the value-in-use calculations. These calculations require the use of estimates as noted in Notes 6, 8, 9 and 10.

The Company assessed impairment indicators for the Powerwave, Performance Drilling, Primawave, and Tubing Pump and Bailers CGUs as at August 31, 2014. Other than the carrying amount of net assets exceeding market capitalization, the Company concluded no additional impairment indicators were present at August 31, 2014. The determination of the recoverable amount for the CGUs were reviewed at August 31, 2014 and the Company concluded there were no changes in key assumptions used in the determination of the recoverable amounts from those used in the determination of the recoverable amounts as at May 31, 2014, resulting in no additional impairment as at August 31, 2014. Subsequent to year end, as a result of market conditions, impairment indicators were present

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and the Company will re-assess recoverable amounts that may result in impairment in subsequent periods.

Proved reserves

Estimate of recoverable quantities of proved reserves include judgemental assumptions regarding commodity prices, exchange rates, discount rates and production and transportation costs for future cash flows. It also requires interpretation of complex geological and geophysical models in order to make an assessment of the size, shape, depth and quality of reservoirs, and their anticipated recoveries. The economic, geological and technical factors used to estimate reserves may change from period to period. Changes in reported reserves can impact asset carrying values, the provision for decommissioning liabilities and the recognition of deferred tax assets, due to changes in expected future cash flows. Reserve estimates are prepared in accordance with Canadian Oil and Gas Evaluation Handbook and are reviewed by third party reservoir engineers.

The amounts recorded for depletion and depreciation of oilfield property, plant and equipment, the provision for decommissioning liabilities, and the valuation of property and equipment are based on estimates of proved reserves, production rates, future commodity prices, future costs and the remaining lives and period of future benefit of the related assets.

Valuation of equity compensation benefits

Management classifies its share-based payment scheme as an equity-settled scheme based on the assessment of its role and that of the employees and brokerage firm in the transaction. In applying its judgement, management consulted with external expert advisors in the accounting and share-based payment advisory industry. The critical assumptions as used in the valuation model are detailed in Note 11.

Lease classification

Determining the classification of an agreement as a finance lease or operating lease requires judgmental assumptions regarding the fair value and the useful life of an asset. Assessments of fair value may change from period to period. Assessments of useful life may change due to various economic, geographic, and technological factors.

Valuation of accounts receivable

Management assesses the collectability of accounts receivable on a monthly basis. Specific provisions are applied based on judgements regarding the status of each project. General provisions are established based on historical experience.

Useful lives of long-lived assets

The Company regularly reviews the estimated useful lives of long-lived assets at the end of each reporting period. These assessments rely on judgements and assumptions based on historical experience with similar assets as well as anticipated technology changes.

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6. JOINTLY CONTROLLED ASSETS

As at August 31, 2013, the Company's jointly controlled assets consisted of its interest in the South Rodney oilfield assets. In the prior year, the Company's Board of Directors approved the disposition of the South Rodney related assets and liabilities, and the Company classified the South Rodney oilfield assets of \$702,426 and the decommissioning obligation of \$38,345, as held for sale, and wrote them down to their fair value from disposition estimated at \$nil and recorded a corresponding impairment charge of \$674,091. On April 17, 2014, the Company closed the sale of the South Rodney related assets and liabilities for total consideration of \$1.

The Company recognized its proportionate revenues and expenses of the jointly controlled assets until the disposition date of April 17, 2014, as follows:

| | August 31, 2014 | August 31, 2013 |
|----------|--------------------|--------------------|
| Revenue | \$ 55,154 | \$ 129,931 |
| Expenses | 66,118 | 97,756 |
| | <u>\$ (10,964)</u> | <u>\$ 32,175</u> |

No further revenues or expenses are expected to be recorded subsequent to the disposition date.

The Company determined that the impairment of \$674,091 related to the South Rodney oilfield assets should be reclassified from costs of goods sold to an impairment expense to conform to the current year's presentation. The reclassification affected presentation and had no impact on the Company's financial position or results from operations.

7. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

| | August 31, 2014 | August 31, 2013 |
|--------------------------|---------------------|----------------------|
| Cash | \$ 954,603 | \$ 1,174,478 |
| Unrestricted investments | 7,000,000 | 9,672,190 |
| Restricted investments | 131,000 | 197,063 |
| | <u>\$ 8,085,603</u> | <u>\$ 11,043,731</u> |

Unrestricted and restricted investments consist of short-term Term Deposits. The restricted investments are held as security against a Letter of Credit in the amount of \$130,000 issued by TD Canada Trust as security for an operating lease.

The Term Deposits have maturities of 90 days or less and annualized interest rates of 1.05%.

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8. PROPERTY, PLANT AND EQUIPMENT

| Year ended August 31, 2014 | Oilfield property, plant and equipment | Tools and equipment | Computer, automotive and office equipment | Leasehold improvements | Total |
|-------------------------------|---|---------------------------|--|---------------------------|---------------|
| Cost | | | | | |
| Balance at August 31, 2013 | \$ - | \$ 8,720,099 | \$ 923,319 | \$ 592,492 | \$ 10,235,910 |
| Additions | - | 541,999 | 24,171 | - | 566,170 |
| Disposals | - | (21,185) | (1,420) | - | (22,605) |
| Impact of foreign translation | - | 3,231 | 7,135 | - | 10,366 |
| Balance at August 31, 2014 | - | 9,244,144 | 953,205 | 592,492 | 10,789,841 |

Accumulated depreciation and impairment

| | | | | | |
|-------------------------------|---|-------------|-----------|-----------|-------------|
| Balance at August 31, 2013 | - | (3,898,116) | (739,477) | (141,342) | (4,778,935) |
| Additions | - | (1,060,730) | (87,480) | (61,731) | (1,209,941) |
| Disposals | - | 17,378 | - | - | 17,378 |
| Impairment | - | (76,724) | (39,643) | - | (116,367) |
| Impact of foreign translation | - | (2,661) | (3,247) | - | (5,908) |
| Balance at August 31, 2014 | - | (5,020,853) | (869,847) | (203,073) | (6,093,773) |

Net book value

| | | | | | |
|----------------------------|------|--------------|-----------|------------|--------------|
| Balance at August 31, 2014 | \$ - | \$ 4,223,291 | \$ 83,358 | \$ 389,419 | \$ 4,696,068 |
|----------------------------|------|--------------|-----------|------------|--------------|

| Year ended August 31, 2013 | Oilfield property, plant and equipment (Note 6) | Tools and equipment | Computer, automotive and office equipment | Leasehold improvements | Total |
|-------------------------------------|---|---------------------------|--|---------------------------|---------------|
| Cost | | | | | |
| Balance at August 31, 2012 | \$ 1,131,173 | \$ 7,564,541 | \$ 852,412 | \$ 573,944 | \$ 10,122,070 |
| Additions | - | 1,174,040 | 65,029 | 18,548 | 1,257,617 |
| Disposals | - | (24,097) | (10,261) | - | (34,358) |
| Transferred to assets held for sale | (1,131,173) | - | - | - | (1,131,173) |
| Impact of foreign translation | - | 5,615 | 16,139 | - | 21,754 |
| Balance at August 31, 2013 | - | 8,720,099 | 923,319 | 592,492 | 10,235,910 |

Accumulated depreciation and impairment

| | | | | | |
|-------------------------------------|-----------|-------------|-----------|-----------|-------------|
| Balance at August 31, 2012 | (368,887) | (2,881,479) | (617,990) | (81,534) | (3,949,890) |
| Additions | (59,860) | (1,031,083) | (123,933) | (59,808) | (1,274,684) |
| Disposals | - | 17,058 | 9,325 | - | 26,383 |
| Transferred to assets held for sale | 428,747 | - | - | - | 428,747 |
| Impact of foreign translation | - | (2,612) | (6,879) | - | (9,491) |
| Balance at August 31, 2013 | - | (3,898,116) | (739,477) | (141,342) | (4,778,935) |

Net book value

| | | | | | |
|----------------------------|------|--------------|------------|------------|--------------|
| Balance at August 31, 2013 | \$ - | \$ 4,821,983 | \$ 183,842 | \$ 451,150 | \$ 5,456,975 |
|----------------------------|------|--------------|------------|------------|--------------|

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During the year, the Company completed an impairment test and recorded an impairment loss related to the Tubing Pump and Bailers cash generating unit of \$1,338,584 on the statement of net loss and comprehensive loss, which included a \$116,367 non-cash impairment charge to property, plant and equipment (Note 10).

Amortization expense for the year ended August 31, 2014 was \$1,209,941 (August 31, 2013 - \$1,274,684).

Property, plant and equipment includes tools and equipment under construction of \$319,639 (August 31, 2013 - \$366,645), which is not being depreciated.

9. INTANGIBLE ASSETS

| Year ended August 31, 2014 | Patents | Acquired licenses | Trade name | Total |
|--|--------------|----------------------|---------------|--------------|
| Cost | | | | |
| Balance at August 31, 2013 | \$ 4,828,339 | \$ 209,652 | \$ - | \$ 5,037,991 |
| Additions | 32,426 | 51,925 | - | 84,351 |
| Impact of foreign translation | - | 3,050 | - | 3,050 |
| Balance at August 31, 2014 | 4,860,765 | 264,627 | - | 5,125,392 |
| Accumulated amortization and impairment | | | | |
| Balance at August 31, 2013 | (1,046,728) | (43,685) | - | (1,090,414) |
| Amortization | (501,224) | (24,795) | - | (526,019) |
| Impact of foreign translation | - | (1,252) | - | (1,252) |
| Balance at August 31, 2014 | (1,547,952) | (69,732) | - | (1,617,684) |
| Net book value | | | | |
| Balance at August 31, 2014 | \$ 3,312,813 | \$ 194,895 | \$ - | \$ 3,507,708 |
| Year ended August 31, 2013 | | | | |
| | Patents | Acquired licenses | Trade name | Total |
| Cost | | | | |
| Balance at August 31, 2012 | \$ 4,760,271 | \$ 106,990 | \$ 18,627 | \$ 4,885,888 |
| Additions | 68,068 | 104,122 | - | 172,190 |
| Impairments | - | - | (18,627) | (18,627) |
| Impact of foreign translation | - | (1,460) | - | (1,460) |
| Balance at August 31, 2013 | 4,828,339 | 209,652 | - | 5,037,991 |
| Accumulated amortization and impairment | | | | |
| Balance at August 31, 2012 | (550,861) | (43,557) | - | (594,418) |
| Amortization | (495,867) | (5,833) | - | (501,700) |
| Impact of foreign translation | - | 5,705 | - | 5,705 |
| Balance at August 31, 2013 | (1,046,728) | (43,685) | - | (1,090,413) |
| Net book value | | | | |
| Balance at August 31, 2013 | \$ 3,781,611 | \$ 165,967 | \$ - | \$ 3,947,578 |

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During the year ended August 31, 2014, the Company acquired an irrevocable license for a well stimulation technology (the “Puffer”) that is complementary Powerwave™ technologies for a one-time upfront payment of \$51,925, plus a royalty equal to twenty-five percent (25%) of the net revenues earned from the Puffer. The Puffer license was classified as finite life intangible assets, subject to straight lined amortization based on the underlying legal rights of the remaining life of the underlying patents and intellectual property.

In the prior year ended August 31, 2013, the Company acquired irrevocable wellbore cleaning and hydro-shock drilling technologies licenses that is complementary to Powerwave™ technologies for a one-time upfront payment of \$104,122, plus a royalty equal to twenty-five percent (25%) of the net revenues earned from the wellbore cleaning and hydro-shock drilling technologies. The wellbore cleaning and hydro-shock drilling licenses were classified as finite life intangible assets, subject to straight lined amortization based on the underlying legal rights of the remaining life of the underlying patents and intellectual property.

Amortization expense for the year ended August 31, 2014 was \$526,019 (August 31, 2013 - \$501,700).

10. GOODWILL

As at May 31, 2014, the Company’s market capitalization was below the carrying value of its net assets, which represents a potential impairment indicator. Management typically performs the annual goodwill impairment test during the fourth quarter; however, as the Tubing Pump and Bailers cash generating unit (“CGU”) financial performance was weaker than anticipated, management concluded it was necessary to perform the impairment test at May 31, 2014.

The goodwill arose as a result of past acquisitions and has been fully allocated to the Tubing Pump and Bailers CGU. The Company completed the impairment test and recorded an impairment loss related to the Tubing Pump and Bailers CGU of \$1,338,584 on the consolidated statement of net loss and comprehensive loss, which is comprised of a \$1,222,217 non-cash goodwill impairment charge and a \$116,367 non-cash impairment charge to property, plant and equipment (Note 8). This non-cash charge does not have an impact on the Company’s cash flows from operating activities and will not have an impact on the CGU’s future operations. The impairment charge was required as this CGU’s performance was weaker than expected as a result of the higher heavy oil price differential in prior years, which impacted drilling and thus the CGU’s current actual results.

If the impairment loss resulting from the comparison of the recoverable amount of the CGU to the carrying amount exceeds the goodwill allocated to the CGU, then the impairment loss is allocated to certain other assets of the CGU. In the Tubing Pump and Bailers CGU, the impairment loss exceeded the carrying amount of goodwill by \$116,367, resulting in impairment losses allocated to property, plant and equipment of \$116,367 (Note 8). The recoverable amount of the Tubing Pump and Bailers CGU was \$735,029.

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The recoverable amounts of the CGU's assets were determined based on a value in use calculation as at May 31, 2014. There is a significant amount of uncertainty with respect to the estimates of the recoverable amounts of the CGU's assets given the necessity of making key economic assumptions about the future. The value in use calculation uses key assumptions which include cash flows, growth opportunities, and the discount rate. The details of these assumptions are described as follows:

Cash flows

Cash flows are projected over a five year period and are based on production and growth plans, internal forecasts, and risk assessments that take into account the unique operations. Revenue and expenses were projected over a five year period based on the Company's long range plan. Revenue and expense projections were based on actual historical averages and Management's long-term plans. The compound annual growth rate for the five year period approximated 8.7%. The valuation is sensitive to changes in the annual growth rate. A 5% decrease or increase in the annual growth rate would lead to an increase or decrease in the impairment amount over the carrying amount by approximately \$39,506.

As tools within the CGU can be refurbished for longer term use, revenues and expenses beyond the five year projections were extrapolated using a growth rate of 0.9% based the Government of Canada Consumer Price Index for May 2014.

Discount rate

A blended discount pre-tax rate of 18.5% was used to discount cash flows in the valuation model. The valuation is sensitive to changes in the discount rate. A 2% increase in the discount rate would lead to an increase in the excess of the estimated recoverable amount over the carrying amount by approximately \$90,041 and lead to impairment of other CGU assets. A corresponding 2% decrease in the discount rate would increase the excess of the estimated recoverable amount over the carrying amount and lead to a reduction in the impairment CGU assets by approximately \$114,251. The discount rate is based on current market information at the date of valuation.

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

11. SHARE CAPITAL

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

a) Authorized share capital

Unlimited common shares without par value

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b) Issued common shares

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

| | August 31, 2014 | | August 31, 2013 | |
|----------------------------|-----------------|----------------|-----------------|----------------|
| | Number | Stated capital | Number | Stated capital |
| Balance, beginning of year | 82,956,240 | \$ 66,438,909 | 82,956,240 | \$ 66,438,909 |
| Share issuances | - | - | - | - |
| Balance, end of year | 82,956,240 | \$ 66,438,909 | 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 five years and vest in equal tranches at three month intervals over a period of eighteen months.

Movements in stock options during the year

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

| | August 31, 2014 | | August 31, 2013 | |
|--------------------------------|-----------------|---------------------------------|-----------------|---------------------------------|
| | Number | Weighted average exercise price | Number | Weighted average exercise price |
| Outstanding, beginning of year | 2,115,000 | \$ 0.64 | 2,380,000 | \$ 1.06 |
| Granted | 825,000 | 0.32 | 750,000 | 0.38 |
| Forfeited | (455,000) | 0.54 | (575,000) | 1.01 |
| Expired | (55,000) | 0.38 | (440,000) | 1.99 |
| Outstanding, end of year | 2,430,000 | \$ 0.55 | 2,115,000 | \$ 0.64 |

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 contributed surplus, assuming the following weighted average assumptions:

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Inputs into the model

| | Weighted Average August 31, 2014 | Weighted Average August 31, 2013 |
|---|--|--|
| Share price at date of grant | \$ 0.315 | \$ 0.38 |
| Exercise price | \$ 0.315 | \$ 0.38 |
| Risk-free rate (based on 5 year Government of Canada bond) | 1.21% | 1.38% |
| Expected volatility | 78.29% | 92.32% |
| Dividend rate | 0% | 0% |
| Expected life | 5 years | 5 years |
| Weighted average value of options granted during the year | \$ 0.16 | \$ 0.27 |

Stock options outstanding at the end of the year

The table below represents the amount of stock options outstanding at August 31, 2014:

| <u>Awards Outstanding</u> | | | <u>Awards Exercisable</u> | | |
|---------------------------|---|----------------|---------------------------|---|----------------|
| Options outstanding | Remaining contractual life in years | Exercise price | Options exercisable | Remaining contractual life in years | Exercise price |
| 30,000 | 0.86 | \$ 1.45 | 30,000 | 0.86 | \$ 1.45 |
| 530,000 | 1.04 | 0.97 | 530,000 | 1.04 | 0.97 |
| 75,000 | 2.31 | 0.73 | 75,000 | 2.31 | 0.73 |
| 245,000 | 0.01 | 0.72 | 245,000 | 0.01 | 0.72 |
| 55,000 | 2.08 | 0.66 | 55,000 | 2.31 | 0.66 |
| 75,000 | 3.20 | 0.41 | 75,000 | 3.20 | 0.41 |
| 595,000 | 3.48 | 0.38 | 595,000 | 3.48 | 0.38 |
| 825,000 | 4.48 | 0.315 | 274,998 | 4.48 | 0.315 |
| 2,430,000 | 2.83 | | 1,879,998 | 2.34 | |

During the year ended August 31, 2014, the Company incurred \$187,804 (August 31, 2013 - \$109,138) in compensation expense relating to outstanding stock options.

The amounts computed according to the Black-Scholes pricing model may not be indicative of the actual values realized upon the exercise of the stock options by the holders.

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d) *Share-based payment reserve*

| | August 31, 2014 | August 31, 2013 |
|----------------------------|--------------------|--------------------|
| Balance, beginning of year | \$ 8,691,895 | \$ 8,582,757 |
| Share-based payment | 187,804 | 109,138 |
| Balance, end of year | \$ 8,879,699 | \$ 8,691,895 |

12. REVENUE

| | August 31, 2014 | August 31, 2013 |
|-------------------------------|--------------------|--------------------|
| Service revenue and royalties | \$ 5,828,357 | \$ 5,780,019 |
| Production revenue | 51,192 | 129,931 |
| | \$ 5,879,549 | \$ 5,909,950 |

13. EXPENSES BY NATURE

| | Note | August 31, 2014 | August 31, 2013 |
|--|-------|--------------------|--------------------|
| Wages, wage expenses and benefits | | \$ 3,182,399 | \$ 2,726,071 |
| Depreciation, amortization, and depletion | 8, 9 | 1,735,960 | 1,776,384 |
| Impairment goodwill | 10 | 1,222,217 | - |
| Materials and related costs | | 1,100,630 | 1,214,700 |
| Office expenses | | 1,004,903 | 999,115 |
| Consultants | | 722,747 | 814,747 |
| Travel, accommodations and meals | | 501,947 | 551,360 |
| Professional fees | | 454,550 | 700,755 |
| Vehicle | | 303,421 | 302,026 |
| Repairs, maintenance and shop supplies | | 263,184 | 341,375 |
| Share based payments | 11 | 187,804 | 109,138 |
| Marketing, promotions and trade shows | | 169,929 | 259,327 |
| Public company and listing fees | | 146,808 | 214,675 |
| Impairment of property, plant and equipment | 10, 6 | 116,367 | 674,091 |
| Bad debts | | 93,237 | 98,304 |
| Miscellaneous | | 13,634 | (4,908) |
| Impairment of intangible assets | | - | 18,627 |
| Gain on disposition of property, plant and equipment | | (17,118) | (16,031) |
| | | \$ 11,202,619 | \$ 10,779,756 |

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Compensation of key management personnel of the Company

The Company's key management personnel include its directors, chief executive officer and president, chief financial officer, vice presidents and senior management. The following outlines their compensation:

| | August 31, 2014 | August 31, 2013 |
|---|---------------------|--------------------|
| Wages, and other short-term employment benefits | \$ 852,604 | \$ 780,698 |
| Share-based payments | 120,820 | 49,518 |
| Directors' fees | 92,500 | 91,684 |
| | <u>\$ 1,065,924</u> | <u>\$ 921,900</u> |

Share-based payments are the fair value of stock options granted to key personnel as disclosed in Note 11 (c).

Financing Costs

Financing costs include the following selected information:

| | August 31, 2014 | August 31, 2013 |
|--|--------------------|--------------------|
| Interest expense | \$ (1,815) | \$ (5,080) |
| Accretion expense on decommissioning liability | - | (1,288) |
| | <u>\$ (1,815)</u> | <u>\$ (6,368)</u> |

Financing Income

Financing income include the following selected information:

| | August 31, 2014 | August 31, 2013 |
|-----------------------|--------------------|--------------------|
| Interest income | \$ 89,748 | \$ 122,449 |
| Foreign exchange gain | 24,830 | 8,888 |
| | <u>\$ 114,578</u> | <u>\$ 131,337</u> |

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14. INCOME TAXES

| | <u>2014</u> | <u>2013</u> |
|-----------------------------|-------------|-------------|
| Current income tax expense | \$ - | \$ - |
| Deferred income tax expense | - | - |
| | <u>\$ -</u> | <u>\$ -</u> |

The tax recovery on the Company's loss before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to losses of the entity as follows:

| | <u>2014</u> | <u>2013</u> |
|--|----------------|----------------|
| Loss before income tax | \$ (5,210,307) | \$ (4,744,837) |
| Expected income tax recovery at statutory income tax rate | (1,318,208) | (1,194,275) |
| Adjusted for the following: | | |
| Differences between U.S. And Canadian tax rates on U.S. losses | (8,648) | (67,660) |
| Stock-based compensation | 47,514 | 27,470 |
| Re-measurement of deferred tax - substantively enacted rates | (60,044) | (27,374) |
| Expiry of non-capital losses | - | - |
| Valuation allowances | 1,003,830 | 1,716,245 |
| Adjustments in respect of income tax of previous periods | 14,263 | (469,271) |
| Non-deductible and other items | 321,293 | 14,865 |
| Net deferred income tax asset | <u>\$ -</u> | <u>\$ -</u> |

The Company's substantially enacted Canadian statutory tax rate is approximately 25.30% (2013 – 25.17%).

Deferred income tax assets and liabilities are attributable to the following:

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| | <u>2014</u> | <u>2013</u> |
|---------------------------------|------------------|------------------|
| Deferred income tax asset | | |
| Non-capital losses | \$ 675,251 | \$ 501,262 |
| Other | - | - |
| | <u>675,251</u> | <u>501,262</u> |
| Deferred income tax liabilities | | |
| Property, plant and equipment | (675,251) | (501,262) |
| Other | - | - |
| | <u>(675,251)</u> | <u>(501,262)</u> |
| Deferred income tax liability | (675,251) | (501,262) |
| Net future income tax asset | <u>\$ -</u> | <u>\$ -</u> |

Deferred income tax assets are recognized for loss carry-forwards and other deductible temporary differences to the extent that the realization of the related tax benefit through future taxable profits is probable. The Company did not recognize deferred income tax assets of \$14,188,233 (2013: \$13,237,056) in respect of tax losses and other deductible temporary differences amounting to \$48,056,210 (2013: \$44,639,678) that can be carried forward against future taxable income.

Included in these deductible temporary differences are federal and Alberta scientific research and experimental development ("SR&ED") pool expenditures amounting to \$3,783,137 (2013: \$3,547,989) that can be carried forward to use against future federal and Alberta net income for tax purposes. These SR&ED pool expenditures do not expire. The Company has filed returns in support of SR&ED expenditures of \$nil for the year-ended August 31, 2014. The Company has up to 18 months within its fiscal year end to file the 2014 SR&ED claim.

The Company did not recognize the benefits of non-refundable SR&ED tax credits ("ITCs") amounting to \$844,208 (2013: \$844,208). These ITCs can be carried forward against future federal income tax payable.

The non-capital losses and ITCs included in the unrecognized deductible temporary differences expire as follows:

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| | U.S. federal net-operating loss carry-forward U.S. \$ | Canadian federal non-capital loss carry-forward CAD \$ | Canadian federal SR&ED (ITCs) CAD \$ |
|------|--|---|---|
| 2015 | \$ - | \$ 567,985 | \$ - |
| 2019 | - | - | 3,903 |
| 2021 | - | - | 4,552 |
| 2022 | - | - | 13,786 |
| 2023 | - | - | 4,493 |
| 2024 | - | - | 2,134 |
| 2026 | - | 1,179,280 | - |
| 2027 | 717,889 | 1,055,478 | 50,490 |
| 2028 | 1,405,291 | 1,901,084 | 172,790 |
| 2029 | 1,439,261 | 2,586,521 | 168,446 |
| 2030 | 1,361,878 | 4,062,139 | 139,977 |
| 2031 | 532,281 | 2,749,950 | 117,573 |
| 2032 | 2,521,604 | 3,337,918 | 166,064 |
| 2033 | - | 2,782,818 | - |
| 2034 | - | 2,618,396 | - |
| | <u>\$ 7,978,204</u> | <u>\$ 22,841,569</u> | <u>\$ 844,208</u> |

15. LOSS PER SHARE

The weighted average number of common shares outstanding for basic and diluted loss per share is 82,956,240 (August 31, 2013 - 82,956,240).

In determining diluted loss per share, the weighted average number of shares outstanding for the year ended August 31, 2014 excluded nil (August 31, 2013 – 1,133,991) for stock options 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.

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16. CAPITAL MANAGEMENT

The Company's primary objectives when managing capital are as follows:

- To safeguard the Company's ability to continue as a going concern;
- To ensure that the Company's business plans are developed so that research and development and capital expenditure commitment costs do not exceed the Company's financial resources;
- To maintain flexibility in order to preserve the Company's ability to meet financial obligations with a long-term view of maximizing shareholder value; and
- To maintain sufficient cash and cash equivalents and short-term investments to fund its business plan.

The Company's primary uses of capital are to finance commercialization of its Powerwave™ and Primawave™ technologies, tool development and manufacturing, market development, working capital, capital expenditures and operating losses.

The Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its underlying assets. The Company maintains or adjusts its capital level to enable it to meet its objectives by:

- Realizing proceeds from the disposition of its investments; and
- Raising capital through equity financings.

In the management of capital, the Company includes the components of shareholders' equity comprised of share capital, share-based payment reserve and accumulated deficit to provide capital of \$18,229,288 as at August 31, 2014 (2013 - \$23,212,123).

Since inception, the Company has financed its liquidity needs through public offerings and private placements of common shares and interest income.

In order to maintain or adjust the capital structure, the Company may adjust the number of shares issued, enter into collaborative and/or licence agreements, enter into mergers and acquisitions, acquire debt or enter into some other form of financing facility.

In order to maximize funds available for investment, the Company does not pay dividends.

The Company expects its current capital resources will be sufficient to fund operations.

The Company is not subject to any externally imposed capital requirements.

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17. FINANCIAL INSTRUMENTS

a) *Categories of financial instruments*

The Company has classified its financial instruments as follows:

| | August 31, 2014 | August 31, 2013 |
|--|--------------------|--------------------|
| Financial assets | | |
| Cash and cash equivalents | \$ 8,085,603 | \$ 11,043,731 |
| Trade and other receivables | 2,028,469 | 1,962,466 |
| Deposits | 89,492 | 115,112 |
| Financial liabilities | | |
| Trade accounts payable and accrued liabilities | 1,051,482 | 1,281,372 |

b) *Financial risk management*

The Company, through its financial assets and liabilities, has exposure to the following risks from its use of financial instruments: credit risk, foreign currency risk, and liquidity risk. An analysis of these risks as at August 31, 2014, is provided below.

(i) Foreign currency risk

Foreign currency risk is the risk that the fair value of future cash flows of financial instruments will fluctuate because of changes in foreign currency exchange rates. The Company conducts a significant portion of its business activities in the United States, in U.S. dollars. Cash and cash equivalents, trade and other receivables, trade accounts payables and accrued liabilities that are denominated in foreign currencies will be affected by the changes in the exchange rates between the Canadian dollar and U.S. dollar. The Company currently does not enter into any derivative financial instruments to reduce its exposure to foreign currency risk.

The tables that follow 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 year ended August 31, 2014. 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").

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| | <u>U.S. dollars</u> |
|---|---------------------|
| Statement of financial position exposure | |
| As at August 31, 2014 | |
| Cash and cash equivalents | \$ 792,019 |
| Trade and other receivables | 1,393,943 |
| Trade accounts payable and accrued liabilities | (105,882) |
| <hr/> | |
| Net statement of financial position exposure | \$ 2,080,080 |
| <hr/> | |
| As at August 31, 2013 | |
| Cash and cash equivalents | \$ 675,350 |
| Trade and other receivables | 538,721 |
| Trade accounts payable and accrued liabilities | (71,643) |
| <hr/> | |
| Net statement of financial position exposure | \$ 1,142,428 |
| <hr/> | |

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 August 31, 2014 would have impacted on comprehensive net loss by \$112,928 (2013 - \$60,280).

(ii) Credit risk

Credit risk arises from the potential that a counterparty to a financial instrument fails to meet its contractual obligations. The Company invests its cash and cash equivalents with counterparties that it believes are of high credit quality as assessed by reputable rating agencies. Given these high credit ratings, the Company does not expect any counterparties holding these cash equivalents to fail to meet their obligations.

The Company assesses trade and other receivables for impairment on a case-by-case basis when they are past due or when objective evidence is received that a customer will default. The Company takes into consideration the customer's payment history, credit worthiness and the current economic environment in which the customer operates to assess impairment.

Prior to accepting new customers, the Company assesses the customer's credit quality and establishes the customer's credit limit. The Company accounts for specific bad debt provisions when management considers that the expected recovery is less than the actual amount of the accounts receivable.

The provision for doubtful accounts has been included in administrative costs in the consolidated statements of net loss 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:

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| | August 31, 2014 | August 31, 2013 |
|---------------------------------|---------------------|---------------------|
| Trade receivables | | |
| Current | \$ 459,348 | \$ 610,437 |
| Past due but not impaired | | |
| Aged between 31 - 90 days | 895,032 | 720,092 |
| Aged between 91 - 120 days | 456,617 | 91,129 |
| Aged greater than 121 days | 385,047 | 622,054 |
| Total trade | 2,196,044 | 2,043,712 |
| Allowance for doubtful accounts | (167,575) | (81,246) |
| | <u>\$ 2,028,469</u> | <u>\$ 1,962,466</u> |

Reconciliation of allowance for doubtful accounts:

| | August 31, 2014 | August 31, 2013 |
|----------------------------|---------------------|--------------------|
| Balance, beginning of year | \$ (81,246) | \$ (21,945) |
| Increase during the year | (86,329) | (59,301) |
| Balance, end of year | <u>\$ (167,575)</u> | <u>\$ (81,246)</u> |

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

| | August 31, 2014 | August 31, 2013 |
|---------------|---------------------|---------------------|
| Canada | \$ 461,227 | \$ 1,040,232 |
| United States | 1,204,471 | 603,861 |
| Other | 362,771 | 318,373 |
| | <u>\$ 2,028,469</u> | <u>\$ 1,962,466</u> |

The Company had \$841,664 of trade receivables (2013 – \$713,183) which were greater than 90 days past due, of the total, \$499,904 (or 59.4%) was concentrated in four customer accounts. These customers are considered to be credit-worthy and there are presently no concerns regarding collectability of these accounts.

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(iii) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting its obligations associated with financial liabilities as they become due.

The Company manages liquidity risk through cash management and by monitoring forecast cash flows.

The following table details the Company's remaining contractual maturity for its financial liabilities as at August 31, 2014. The table has been prepared based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay.

| | 0 to 3 months | 4 to 12 months | Year 2 | Years 3 to 5 | After 5 years |
|---|---------------------|-------------------|-------------------|-------------------|-------------------|
| Trade accounts payable and accrued liabilities | \$ 1,000,248 | \$ 51,234 | \$ - | \$ - | \$ - |
| Commitments | 103,564 | 311,411 | 404,774 | 768,951 | 305,683 |
| | <u>\$ 1,103,812</u> | <u>\$ 362,645</u> | <u>\$ 404,774</u> | <u>\$ 768,951</u> | <u>\$ 305,683</u> |

Based on management's assessment of its financial position and liquidity profile at August 31, 2014, the Company will be able to satisfy its obligations as they come due.

c) *Fair values*

The carrying amounts in the consolidated statement of financial position for cash and cash equivalents, trade and other receivables and trade accounts payable and accrued liabilities approximate their fair values due to the short terms to maturity of these instruments.

The Company has no financial assets recorded at fair value at August 31, 2014 or 2013.

18. NET CHANGE IN NON-CASH WORKING CAPITAL ITEMS

| | August 31, 2014 | August 31, 2013 |
|--|---------------------|---------------------|
| Working capital changes | | |
| Trade and other receivables | \$ (66,003) | \$ (294,723) |
| Prepaid expenses and other current cost | (147,678) | (6,418) |
| Inventories | 19,664 | 97,642 |
| Deposits | 25,620 | (19,781) |
| Trade accounts payable and accrued liabilities | (229,889) | (365,111) |
| | <u>\$ (398,286)</u> | <u>\$ (588,391)</u> |

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19. COMMITMENTS AND GUARANTEES

Operating leases

Amounts outstanding under non-cancellable operating lease agreements payable within the next year and thereafter:

| | Property | Plant, equipment, automotive and other | Total |
|--------------------------|---------------------|---|---------------------|
| Next year | \$ 410,572 | \$ 4,403 | \$ 414,975 |
| Within two to five years | 1,170,798 | 2,927 | 1,173,725 |
| Thereafter | 305,683 | - | 305,683 |
| | <u>\$ 1,887,053</u> | <u>\$ 7,330</u> | <u>\$ 1,894,383</u> |

Guarantees

In the normal course of operations, the Company may provide indemnification to counterparties that would require the Company to compensate them for costs incurred as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction. The terms of these indemnification agreements will vary based upon the contract. Management does not expect the potential amount of these counterparty payments to have a material effect on the Company's financial position or operating results.

20. RELATED PARTY TRANSACTIONS

Expense transaction

The Company entered into a Consulting Agreement with a director of the Company to provide certain services for a monthly fee of US \$5,000 per month. During the year, the Company recorded \$64,659 (August 31, 2013 - \$60,669) in consulting expense, with \$nil (August 31, 2013 - \$nil) included in accounts payable.

21. SEGMENTED INFORMATION AND SIGNIFICANT CUSTOMERS

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

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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.

Geographic information

| | Revenue | | Assets | |
|---------------|---------------------|---------------------|----------------------|----------------------|
| | August 31, 2014 | August 31, 2013 | August 31, 2014 | August 31, 2013 |
| Canada | \$ 2,529,873 | \$ 3,602,796 | \$ 16,194,055 | \$ 22,390,159 |
| United States | 2,382,008 | 1,503,680 | 2,189,294 | 1,647,849 |
| International | 967,668 | 803,474 | 897,421 | 455,487 |
| | <u>\$ 5,879,549</u> | <u>\$ 5,909,950</u> | <u>\$ 19,280,770</u> | <u>\$ 24,493,495</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

During the year ended August 31, 2014, the Company recorded revenue from 78 customers (year ended August 31, 2013 - 97 customers). Sales in the year ended August 31, 2014 from the top three customers amounted to \$1,024,500, \$979,677 and \$881,676 which represented 17.4%, 16.6% and 15.0% respectively, of total revenue. Sales in the year ended August 31, 2013 from the top three customers amounted to \$1,326,731, \$1,320,993 and \$378,213, which represented 22.5%, 22.4% and 6.4% respectively, of total revenue.

22. SEASONALITY OF OPERATIONS

Oilfield services offered by the Company are seasonal and related to the product offering and geographical extent to which products were offered for sale. The Company's pump and bailer product offering, in relation to oilfield services, are rental and sale of downhole equipment. At present, the target geographical area of the product offering is Alberta and Saskatchewan. Due to temperature influences on ground conditions, the months of December, March and April have lower activities.

The Company however, focuses the majority of its resources on Powerwave and Primawave technologies. As the markets are diverse for Powerwave and Primawave, seasonal fluctuations are limited to the geography being served. In addition there are no known seasonal fluctuations in regards to oil production. As such management believes that this seasonality of operations will have minimal affects moving forward.