

*Consolidated Financial Statements of*

# **WAVEFRONT TECHNOLOGY SOLUTIONS INC.**

*August 31, 2016 and 2015*

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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 statements of financial position as at August 31, 2016 and August 31, 2015, and the consolidated statements of net loss and comprehensive loss, consolidated statements of changes in shareholders' equity and consolidated statements of cash flow for the years 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 audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits 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 in our audits 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, 2016 and August 31, 2015, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.



Chartered Professional Accountants

December 20, 2016  
Edmonton, AB

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

	<u>Note</u>	<u>August 31,</u> <u>2016</u>	<u>August 31,</u> <u>2015</u>
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	7	\$ 5,575,995	\$ 6,706,591
Trade and other receivables		444,291	1,116,680
Inventories	8	183,340	433,087
Prepaid expenses and other current assets		43,538	532,389
		6,247,164	8,788,747
<b>NON-CURRENT ASSETS</b>			
Deposits		25,359	60,434
Property, plant and equipment	8	1,883,560	2,101,124
		\$ 8,156,083	\$ 10,950,305
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>CURRENT LIABILITIES</b>			
Trade accounts payable and accrued liabilities		\$ 609,102	\$ 713,964
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	9 b	66,438,909	66,438,909
Share based payment reserve	9 d	9,025,103	8,958,915
Accumulated other comprehensive income		574,109	567,456
Deficit		(68,491,140)	(65,728,939)
		7,546,981	10,236,341
		\$ 8,156,083	\$ 10,950,305

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

APPROVED BY THE BOARD

"Steve Percy" (signed) Director

"Mark Bernard" (signed) Director

**WAVEFRONT TECHNOLOGY SOLUTIONS INC.**  
**Consolidated Statements of Net Loss and Comprehensive Loss**  
**Years ended August 31, 2016 and 2015**  
**(Canadian dollars)**

	<u>Note</u>	<u>August 31,</u> <u>2016</u>	<u>August 31,</u> <u>2015</u>
Revenue		\$ 2,735,798	\$ 4,460,044
Cost of sales		1,095,973	1,884,726
General and administrative		3,210,547	3,856,267
Amortization and depreciation		545,969	972,327
Sales and marketing		533,139	1,177,429
Research and development		164,787	188,837
Impairment	6	-	5,023,475
	10	5,550,415	13,103,061
<b>OPERATING LOSS</b>		<b>(2,814,617)</b>	<b>(8,643,017)</b>
<b>OTHER (EXPENSES) INCOME</b>			
Financing costs		(11,442)	(4,238)
Financing income	10	63,858	123,390
		52,416	119,152
<b>NET LOSS</b>		<b>(2,762,201)</b>	<b>(8,523,865)</b>
<b>OTHER COMPREHENSIVE INCOME</b>			
Items that may be reclassified subsequently to net loss			
Translation gain on foreign operations		6,653	451,702
<b>COMPREHENSIVE LOSS</b>		<b>\$ (2,755,548)</b>	<b>\$ (8,072,163)</b>
<b>WEIGHTED AVERAGE NUMBER OF SHARES</b>			
Basic and diluted	12	82,956,240	82,956,240
<b>LOSS PER COMMON SHARE</b>			
Basic and diluted	12	\$ (0.03)	\$ (0.10)

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

**WAVEFRONT TECHNOLOGY SOLUTIONS INC.**  
**Consolidated Statements of Changes in Shareholders' Equity**  
**For the years ended August 31, 2016 and 2015**  
(Canadian dollars)

	Share capital	Share based payment reserve	Accumulated other comprehensive income	Deficit	Total
<b>Balance at August 31, 2014</b>	66,438,909	8,879,699	115,754	(57,205,074)	\$ 18,229,288
Net Loss	-	-	-	(8,523,865)	(8,523,865)
Translation gain on foreign operations	-	-	451,702	-	451,702
Recognition of shared-based payments	-	79,216	-	-	79,216
<b>Balance at August 31, 2015</b>	66,438,909	8,958,915	567,456	(65,728,939)	\$ 10,236,341
Net Loss	-	-	-	(2,762,201)	(2,762,201)
Translation gain on foreign operations	-	-	6,653	-	6,653
Recognition of shared-based payments	-	66,188	-	-	66,188
<b>Balance at August 31, 2016</b>	\$ 66,438,909	\$ 9,025,103	\$ 574,109	\$ (68,491,140)	\$ 7,546,981

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

**WAVEFRONT TECHNOLOGY SOLUTIONS INC.**  
**Consolidated Statements of Cash Flow**  
**Years ended August 31, 2016 and 2015**  
**(Canadian dollars)**

	<u>Note</u>	<u>August 31,</u> <u>2016</u>	<u>August 31,</u> <u>2015</u>
<b>OPERATING ACTIVITIES</b>			
Net loss		\$ (2,762,201)	\$ (8,523,865)
Items not affecting cash			
Amortization and depreciation	8	545,969	972,327
Share-based payments	9 (d)	66,188	79,216
Impact of foreign translation		14,281	169,159
Loss (gain) on disposal of property, plant and equipment		13,389	(6,308)
Interest expense		1,777	4,238
Impairment	6	-	5,023,475
		(2,120,597)	(2,281,758)
Interest paid		(1,777)	(4,238)
Net change in non-cash working capital items		1,092,062	972,521
Cash used in operating activities		(1,030,312)	(1,313,475)
<b>INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment	8	(94,822)	(337,104)
Proceeds on disposal of property, plant and equipment		1,668	22,758
Cash used in investing activities		(93,154)	(314,346)
Foreign exchange (loss) gain on cash held in foreign currency		(7,130)	248,809
NET DECREASE IN CASH AND CASH EQUIVALENTS		(1,130,596)	(1,379,012)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		6,706,591	8,085,603
CASH AND CASH EQUIVALENTS, END OF PERIOD		\$ 5,575,995	\$ 6,706,591
<b>CASH AND CASH EQUIVALENTS</b>			
Cash denominated in CDN		\$ 4,384,331	\$ 4,920,688
Cash denominated in USD		907,996	1,350,603
Foreign currency translation amount		283,668	435,300
CASH AND CASH EQUIVALENTS, END OF PERIOD		\$ 5,575,995	\$ 6,706,591

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

# WAVEFRONT TECHNOLOGY SOLUTIONS INC.

## Notes to the Consolidated Financial Statements

August 31, 2016 and 2015

(Canadian dollars)

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### 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 (improved oil recovery or "IOR"; and / or enhanced oil recovery or "EOR"), increasing well productivity through well workovers or 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 20, 2016.

#### *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

August 31, 2016 and 2015

(Canadian dollars)

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- 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.

### *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.

#### 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 less than one year.



# WAVEFRONT TECHNOLOGY SOLUTIONS INC.

## Notes to the Consolidated Financial Statements

August 31, 2016 and 2015

(Canadian dollars)

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### *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, 2016 inventories consumed and included in cost of sales amounted to \$196,560 (August 31, 2015 - \$201,579). In the fourth quarter the Company reclassified \$249,138 of raw materials and consumable inventory to tools and equipment (Note 8).

### *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.

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:

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.

# WAVEFRONT TECHNOLOGY SOLUTIONS INC.

## Notes to the Consolidated Financial Statements

August 31, 2016 and 2015

(Canadian dollars)

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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.

### *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 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, in accordance with the substance of the relevant agreement. 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.

### *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 9(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

# WAVEFRONT TECHNOLOGY SOLUTIONS INC.

## Notes to the Consolidated Financial Statements

August 31, 2016 and 2015

(Canadian dollars)

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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.

### *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.

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.

# WAVEFRONT TECHNOLOGY SOLUTIONS INC.

## Notes to the Consolidated Financial Statements

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(Canadian dollars)

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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.

### *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.

# WAVEFRONT TECHNOLOGY SOLUTIONS INC.

## Notes to the Consolidated Financial Statements

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### *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, 2016 and 2015 the Company had no financial assets recorded at FVTPL.

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.

# WAVEFRONT TECHNOLOGY SOLUTIONS INC.

## Notes to the Consolidated Financial Statements

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(Canadian dollars)

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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, 2016 and 2015, 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, 2016 and 2015.

### *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.

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.

# WAVEFRONT TECHNOLOGY SOLUTIONS INC.

## Notes to the Consolidated Financial Statements

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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.

## **4. NEW ACCOUNTING STANDARDS ISSUED BUT NOT YET 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:

# WAVEFRONT TECHNOLOGY SOLUTIONS INC.

## Notes to the Consolidated Financial Statements

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### Statement of Cash Flows (“IAS 7”)

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

### Income Taxes (“IAS12”)

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

### Share-based Payments (“IFRS 2”)

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

### 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”)

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



# WAVEFRONT TECHNOLOGY SOLUTIONS INC.

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### 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.

## 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, 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. This determination requires significant judgement.

The recoverable amounts of cash-generating units have been determined based on the value-in-use calculations or fair value less costs to disposal. These calculations require the use of estimates as noted in Note 6.

The Company assessed impairment indicators for the Powerwave and Tubing Pump and Bailers CGUs as at August 31, 2016 and determined that apart from prior year’s impairment indicators that no indicators of impairment were present.

### 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. The critical assumptions as used in the valuation model are detailed in Note 9.

# WAVEFRONT TECHNOLOGY SOLUTIONS INC.

## Notes to the Consolidated Financial Statements

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### 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.

### 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.

## 6. IMPAIRMENT

As at August 31, 2016 and during the year then ended, the Company concluded that apart from prior year's impairment indicators that no indicators of impairment were present.

### *Impairment tests performed during the year ended August 31, 2015 – Powerwave CGU*

The recoverable amounts of property, plant and equipment and intangible assets, recorded within the Powerwave CGU as at November 30, 2014 and February 28, 2015 reporting periods, were determined using the value-in-use and fair value less costs to sell. Estimates used to determine the fair value less costs to sell are described above and estimates used to determine the value-in-use are described in the remainder of this note. As the recoverable amounts were determined to be less than the carrying value of the property, plant and equipment and intangible assets recorded within the Powerwave CGU, an impairment charge of \$5,023,475 was recognized. The Company has allocated \$1,753,520 (Note 8) and \$3,269,955 to property, plant and equipment and intangible assets, respectively.

### *Impairment tests performed during the year ended August 31, 2015 – Tubing Pump and Bailer CGUs*

The recoverable amounts of property, plant and equipment and intangible assets, recorded within the Tubing Pump and Bailer CGUs as at November 30, 2014 and February 28, 2015 reporting periods, were determined using value-in-use and fair value less costs to sell. Estimates used to determine the fair value less costs to sell are described above. As the recoverable amounts were determined to exceed the carrying value of the property, plant and equipment and intangible assets recorded within the Tubing Pump and Bailer CGUs, no impairment loss was recognized.

# WAVEFRONT TECHNOLOGY SOLUTIONS INC.

## Notes to the Consolidated Financial Statements

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### Cash flows

Cash flows utilized in the value in use calculations were projected over a five year period and are based on 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 approved adjusted forecasts, and long range plans. Revenue and expense projections were also based on actual historical averages and historical growth rates. The valuation is sensitive to changes in the annual growth rate.

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 equal to the Government of Canada Consumer Price Index ("CPI") as at the balance sheet dates.

### Discount rate

A pre-tax discount rate of 33% was used to discount cash flows in the November 30, 2014 and February 28, 2015 valuation models. The valuation is sensitive to changes in the discount rate.

### Variables and sensitivity

The value in use calculation involves the following variables and is subject to the following sensitivities to the variables used:

	November 30, 2014	February 28, 2015
Compounded annual growth rate approximated	44%	49%
Government of Canada CPI as at balance sheet date	0.9%	1.0%
2% increase / decrease in growth rate		
would decrease / increase impairment	\$ 712,318	\$ 596,104
1% increase in discount rate would increase impairment	\$ 769,540	\$ 580,479
1% decrease in discount rate would decrease impairment	\$ 830,327	\$ 626,545

# WAVEFRONT TECHNOLOGY SOLUTIONS INC.

## Notes to the Consolidated Financial Statements

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### 7. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	August 31, 2016	August 31, 2015
Cash	\$ 1,325,995	\$ 1,874,251
Unrestricted investments	4,250,000	4,700,000
Restricted investments	-	132,340
	<u>\$ 5,575,995</u>	<u>\$ 6,706,591</u>

Unrestricted investments consist of short-term Term Deposits. The Term Deposits have maturities of less than a year with annualized interest rates ranging between 1.35% and 1.40%.

The restricted investments in fiscal 2015 were 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, which expired January 31, 2016.

### 8. PROPERTY, PLANT AND EQUIPMENT

Year ended August 31, 2016	Tools and equipment	Computer, automotive and office equipment	Leasehold improvements	Total
<b>Cost</b>				
Balance at August 31, 2015	\$ 7,136,311	\$ 1,185,420	\$ 864,220	\$ 9,185,951
Additions	93,123	1,699	-	94,822
Reclassifications	249,138	-	-	249,138
Disposals	(3,067,655)	(251,048)	(1,684)	(3,320,387)
Impact of foreign translation	(1,704)	(1,081)	-	(2,785)
Balance at August 31, 2016	<u>4,409,213</u>	<u>934,990</u>	<u>862,536</u>	<u>6,206,739</u>
<b>Accumulated depreciation and impairment</b>				
Balance at August 31, 2015	(5,834,664)	(955,636)	(294,527)	(7,084,827)
Additions	(363,435)	(70,744)	(111,790)	(545,969)
Disposals	3,066,019	237,627	1,684	3,305,330
Impact of foreign translation	1,781	506	-	2,287
Balance at August 31, 2016	<u>(3,130,299)</u>	<u>(788,247)</u>	<u>(404,633)</u>	<u>(4,323,179)</u>
<b>Net book value</b>				
Balance at August 31, 2016	<u>\$ 1,278,914</u>	<u>\$ 146,743</u>	<u>\$ 457,903</u>	<u>\$ 1,883,560</u>

# WAVEFRONT TECHNOLOGY SOLUTIONS INC.

## Notes to the Consolidated Financial Statements

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Year ended August 31, 2015	Tools and equipment	Computer, automotive and office equipment	Leasehold improvements	Total
<b>Cost</b>				
Balance at August 31, 2014	\$ 9,244,144	\$ 953,205	\$ 592,492	\$ 10,789,841
Additions	204,956	103,093	29,055	337,104
Reclassifications	(400,680)	158,007	242,673	-
Disposals	(655,484)	(81,300)	-	(736,784)
Transfer to inventory	(1,302,585)	-	-	(1,302,585)
Impact of foreign translation	45,960	52,415	-	98,375
Balance at August 31, 2015	7,136,311	1,185,420	864,220	9,185,951
<b>Accumulated depreciation and impairment</b>				
Balance at August 31, 2014	(5,020,853)	(869,847)	(203,073)	(6,093,773)
Additions	(543,071)	(95,900)	(91,454)	(730,425)
Disposals	655,484	64,850	-	720,334
Transfer to inventory	841,346	-	-	841,346
Impairment	(1,734,384)	(19,136)	-	(1,753,520)
Impact of foreign translation	(33,186)	(35,603)	-	(68,789)
Balance at August 31, 2015	(5,834,664)	(955,636)	(294,527)	(7,084,827)
<b>Net book value</b>				
Balance at August 31, 2015	\$ 1,301,647	\$ 229,784	\$ 569,693	\$ 2,101,124

Amortization expense for the year ended August 31, 2016 was \$545,969 (August 31, 2015 - \$730,425).

As at August 31, 2016, 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 \$249,138 of raw material and consumable inventory to equipment under construction within the tools and equipment under asset segment.

As at August 31, 2016, property, plant and equipment includes tools and equipment under construction of \$349,157 (August 31, 2015 - \$116,488), which is not being depreciated.

# WAVEFRONT TECHNOLOGY SOLUTIONS INC.

## Notes to the Consolidated Financial Statements

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### 9. 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 changes in the Company's outstanding common shares were as follows:

	August 31, 2016		August 31, 2015	
	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 up to ten 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, 2016		August 31, 2015	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Outstanding, beginning of year	2,875,000	\$ 0.39	2,430,000	\$ 0.55
Granted	1,975,000	0.28	1,000,000	0.13
Forfeited	(25,000)	0.38	(290,000)	0.47
Expired	(530,000)	0.97	(265,000)	0.78
Outstanding, end of year	4,295,000	\$ 0.27	2,875,000	\$ 0.39

# WAVEFRONT TECHNOLOGY SOLUTIONS INC.

## Notes to the Consolidated Financial Statements

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Subsequent to the year ended August 31, 2016, 45,000 options with an average exercise price of \$0.66 were forfeited.

### 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:

### Inputs into the model

	Weighted Average August 31, 2016	Weighted Average August 31, 2015
Share price at date of grant	\$ 0.28	\$ 0.195
Exercise price	\$ 0.28	\$ 0.245
Risk-free rate (based on 5 year Government of Canada bond)	0.57%	1.01%
Expected volatility	115.37%	86.42%
Dividend rate	0%	0%
Expected life	3.7 years	5 years
Weighted average value of options granted during the year	\$ 0.21	\$ 0.15

### Stock options outstanding at the end of the year

The table below represents the amount of stock options outstanding at August 31, 2016:

Awards Outstanding			Awards Exercisable		
Options outstanding	Remaining contractual life in years	Exercise price	Options exercisable	Remaining contractual life in years	Exercise price
900,000	3.54	\$ 0.12	749,998	3.54	\$ 0.12
1,975,000	9.92	0.28	-	-	0.28
825,000	2.48	0.315	825,000	2.48	0.315
475,000	1.48	0.38	475,000	1.48	0.38
75,000	1.20	0.41	75,000	1.20	0.41
45,000	0.08	0.66	45,000	0.08	0.66
4,295,000	5.97		2,169,998	2.53	

During the year ended August 31, 2016, the Company incurred \$66,188 (August 31, 2015 - \$79,216) in compensation expense relating to outstanding stock options.

# WAVEFRONT TECHNOLOGY SOLUTIONS INC.

## Notes to the Consolidated Financial Statements

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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.

*d) Share-based payment reserve*

	August 31, 2016	August 31, 2015
Balance, beginning of year	\$ 8,958,915	\$ 8,879,699
Share-based payment	66,188	79,216
Balance, end of year	\$ 9,025,103	\$ 8,958,915

### 10. EXPENSES BY NATURE

	Note	August 31, 2016	August 31, 2015
Wages, wage expenses and benefits		\$ 2,372,108	\$ 3,196,554
Office expenses		736,979	1,037,209
Depreciation and amortization	8	545,969	972,327
Professional fees		389,189	371,109
Materials and related costs		369,391	1,067,788
Travel, accommodations and meals		282,525	365,591
Consultants		246,586	289,754
Public company & listing fees		149,427	118,201
Vehicle		134,924	248,667
Repairs, maintenance and shop supplies		130,120	195,237
Bad debts		87,646	96,404
Share-based payments		66,188	79,216
Marketing, promotions and trade shows		18,583	31,808
Loss (gain) on disposition of property, plant and equipment		13,389	(6,308)
Miscellaneous		7,391	16,029
Impairment	6	-	5,023,475
		\$ 5,550,415	\$ 13,103,061

*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:



# WAVEFRONT TECHNOLOGY SOLUTIONS INC.

## Notes to the Consolidated Financial Statements

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	August 31, 2016	August 31, 2015
Wages, and other short-term employment benefits	\$ 720,669	\$ 980,442
Directors' fees	86,000	87,000
Share-based payments	56,110	78,122
	<hr/>	<hr/>
	\$ 862,779	\$ 1,145,564

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Share-based payments are the fair value of stock options granted to key personnel as disclosed in Note 9 (c).

### *Financing Income*

Financing income includes the following selected information:

	August 31, 2016	August 31, 2015
Interest income	\$ 63,858	\$ 69,089
Foreign exchange gain	-	54,301
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	\$ 63,858	\$ 123,390

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## 11. INCOME TAXES

	2016	2015
Current income tax expense	\$ -	\$ -
Deferred income tax expense	-	-
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	\$ -	\$ -

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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:

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	2016	2015
Loss before income tax	\$ (2,762,201)	\$ (8,523,865)
Expected income tax recovery at statutory income tax rate	(741,927)	(2,168,307)
Adjusted for the following:		
Differences between U.S. and Canadian tax rates on U.S. losses	(143,014)	(119,282)
Stock-based compensation	17,778	20,311
Re-measurement of deferred tax - substantively enacted rates	57,516	(1,159,684)
Expiry of non-capital losses	-	153,356
Valuation allowances	155,546	2,965,791
Adjustments in respect of income tax of previous periods	647,609	303,727
Non-deductible and other items	6,492	4,088
Net deferred income tax asset	\$ -	\$ -

The Company's substantially enacted Canadian statutory tax rate is approximately 26.86% (2015 – 25.64%).

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

	2016	2015
Deferred income tax asset		
Non-capital losses	\$ 553,789	\$ 536,486
Other	-	-
Deferred income tax asset	553,789	536,486
Deferred income tax liabilities		
Property, plant and equipment	(553,789)	(536,486)
Other	-	-
Deferred income tax liability	(553,789)	(536,486)
Net future income tax asset	\$ -	\$ -

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 \$17,327,919 (2015: \$16,994,409) in respect of tax losses and other deductible temporary differences amounting to \$58,603,361 (2015: \$55,247,778) 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 \$3,547,989 (2015: \$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, 2016. The Company has up to 18 months within its fiscal year end to file any SR&ED claim.

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The Company did not recognize the benefits of non-refundable SR&ED tax credits ("ITCs") amounting to \$844,208 (2015: \$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:

	carry-forward U.S. \$	carry-forward CAD \$	SR&ED (ITCs) CAD \$
2019	\$ -	\$ -	\$ 3,903
2021	-	-	4,552
2022	-	-	13,786
2023	-	-	4,493
2024	-	-	2,134
2026	-	830,601	-
2027	707,984	861,336	50,490
2028	1,405,291	1,901,084	172,790
2029	1,439,261	2,586,521	168,446
2030	1,361,878	3,453,864	139,977
2031	532,281	531,603	117,573
2032	2,521,604	3,337,918	166,064
2033	-	2,782,818	-
2034	-	1,844,960	-
2035	874,645	3,321,790	-
2036	924,983	2,501,695	-
	\$ 9,767,927	\$ 23,954,190	\$ 844,208

## 12. LOSS PER SHARE

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

In determining diluted loss per share, the weighted average number of shares outstanding for the year ended August 31, 2016 excluded 776,491 (August 31, 2015 – nil) 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.

# WAVEFRONT TECHNOLOGY SOLUTIONS INC.

## Notes to the Consolidated Financial Statements

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### 13. 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 \$7,546,981 as at August 31, 2016 (2015 - \$10,236,341).

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.

# WAVEFRONT TECHNOLOGY SOLUTIONS INC.

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### 14. FINANCIAL INSTRUMENTS

#### a) *Categories of financial instruments*

The Company has classified its financial instruments as follows:

	August 31, 2016	August 31, 2015
<b>Financial assets</b>		
Cash and cash equivalents	\$ 5,575,995	\$ 6,706,591
Trade and other receivables	444,291	1,116,680
Deposits	25,359	60,434
<b>Financial liabilities</b>		
Trade accounts payable and accrued liabilities	609,102	713,964

#### 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, 2016, 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, 2016. 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>
<b>Statement of financial position exposure</b>	
<b>As at August 31, 2016</b>	
Cash and cash equivalents	\$ 908,004
Trade and other receivables	208,163
Trade accounts payable and accrued liabilities	143,685
<b>Net statement of financial position exposure</b>	<b>\$ 1,259,852</b>

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	<u>U.S. dollars</u>
<b>Statement of financial position exposure</b>	
<b>As at August 31, 2015</b>	
Cash and cash equivalents	\$ 1,350,603
Trade and other receivables	422,103
Trade accounts payable and accrued liabilities	(180,150)
	<hr/>
Net statement of financial position exposure	\$ 1,592,556
	<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, 2016 would have impacted on comprehensive net loss by \$62,993 (2015 - \$79,628).

### (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.

Credit risk associated with cash and cash equivalents and short-term investments is managed by ensuring that these financial assets are held with major financial institutions with strong investment grade ratings.

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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(Canadian dollars)

	August 31, 2016	August 31, 2015
Trade and other receivables		
Current	\$ 245,407	\$ 343,326
Past due but not impaired		
Aged between 31 - 90 days	54,131	556,045
Aged between 91 - 120 days	31,282	39,648
Aged greater than 121 days	117,598	237,258
Total trade	448,418	1,176,277
Allowance for doubtful accounts	(4,127)	(59,597)
	\$ 444,291	\$ 1,116,680

Reconciliation of allowance for doubtful accounts:

	August 31, 2016	August 31, 2015
Balance, beginning of year	\$ 59,597	\$ 167,575
Increase in allowance	107,106	108,452
Net of write-offs and recoveries	(163,070)	(246,482)
Impact of foreign exchange	494	30,052
Balance, end of year	\$ 4,127	\$ 59,597

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

	August 31, 2016	August 31, 2015
Canada	\$ 104,258	\$ 155,313
United States	102,715	457,894
Other	237,318	503,473
	\$ 444,291	\$ 1,116,680

The Company had \$148,880 of trade receivables (2015 – \$276,906) which were greater than 90 days past due, of the total, \$127,058 (or 85.3%) 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, 2016. 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	\$ 609,102	\$ -	\$ -	\$ -	\$ -
Commitments	111,058	277,612	365,886	810,507	-
	<u>\$ 720,160</u>	<u>\$ 277,612</u>	<u>\$ 365,886</u>	<u>\$ 810,507</u>	<u>\$ -</u>

Based on management's assessment of its financial position and liquidity profile at August 31, 2016, 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, 2016 or 2015.

## 15. NET CHANGE IN NON-CASH WORKING CAPITAL ITEMS

	August 31, 2016	August 31, 2015
Working capital changes		
Trade and other receivables	\$ 672,389	\$ 911,789
Inventories	609	524,006
Prepaid expenses and other current assets	488,851	(154,815)
Deposits	35,075	29,058
Trade accounts payable and accrued liabilities	(104,862)	(337,517)
	<u>\$ 1,092,062</u>	<u>\$ 972,521</u>



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### 16. 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	\$ 362,455	\$ 26,215	\$ 388,670
Within two to five years	1,176,393	-	1,176,393
Thereafter	-	-	-
	<u>\$ 1,538,848</u>	<u>\$ 26,215</u>	<u>\$ 1,565,063</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.

### 17. 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 \$3,000 per month (2015 – US \$5,000). During the year, the Company recorded \$47,754 (August 31, 2015 - \$72,591) in consulting expense, with \$nil (August 31, 2015 - \$nil) included in accounts payable.

### 18. 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.

# WAVEFRONT TECHNOLOGY SOLUTIONS INC.

## Notes to the Consolidated Financial Statements

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(Canadian dollars)

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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, 2016	August 31, 2015	August 31, 2016	August 31, 2015
Canada	\$ 528,257	\$ 1,464,931	\$ 7,217,668	\$ 9,089,068
United States	336,444	1,653,167	670,777	1,592,071
International	1,871,097	1,341,946	267,638	269,166
	\$ 2,735,798	\$ 4,460,044	\$ 8,156,083	\$ 10,950,305

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, 2016, the Company recorded revenue from 36 customers (year ended August 31, 2015 - 67 customers). Sales in the year ended August 31, 2016 from the top three customers amounted to \$825,012, \$591,831 and \$314,715 which represented 30.2%, 21.6% and 11.5% respectively, of total revenue. Sales in the year ended August 31, 2015 from the top three customers amounted to \$690,142, \$511,808 and \$415,115 which represented 15.5%, 11.5% and 9.3% respectively, of total revenue.