

# WAVEFRONT

ENVIRONMENTAL STEWARDSHIP THROUGH SMART INNOVATION

Wavefront Technology Solutions Inc.

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Quarterly Report

For the second

Quarter ended

February 28, 2021



*The following discussion and analysis of financial results should be read in conjunction with the unaudited financial statements and the accompanying notes for the quarter ended February 28, 2021 and February 29, 2020 and is based on information available to April 27, 2021. Additional information on Wavefront Technology Solutions Inc.'s (the "Company" or "Wavefront") is available on SEDAR at [www.sedar.com](http://www.sedar.com).*



## Management's Discussion and Analysis of Financial Condition and Results of Operations

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### MANAGEMENT'S RESPONSIBILITY

Management has prepared this Management's Discussion and Analysis ("MD&A"). The MD&A is based upon Wavefront Technology Solutions Inc.'s (the "Wavefront" or "the Company") financial results prepared in accordance with International Financial Reporting Standard ("IFRS"). The MD&A primarily compares the unaudited financial results for the second quarter ended February 28, 2021 and February 29, 2020. Management has established and maintains an accounting and reporting system supported by internal controls designed to safeguard assets from loss or unauthorized use and ensure the accuracy of the IFRS's financial records (also see section titled "Controls and Procedures" page 25). The financial information presented throughout this MD&A should be read in conjunction with the unaudited condensed consolidated interim financial statements and related notes for the quarters ended February 28, 2021 and February 29, 2020 as well as the audited consolidated financial statements for the period ended August 31, 2020 and 2019 and the related notes.

Unless otherwise indicated, all amounts shown below are in Canadian dollars. Additional information regarding our Company is available on SEDAR, [www.sedar.com](http://www.sedar.com). Such additional information is not incorporated herein, unless otherwise specified, and should not be deemed to be made part of this MD&A.

The Audit Committee of the Board of Directors, whose members are independent as defined in National Instrument 52-110; and, met to review the unaudited condensed consolidated interim financial statements with management, and has reported to the Board of Directors thereon. On the recommendation of the Audit Committee, the Board of Directors has approved the condensed consolidated interim financial statements on April 27, 2021.

### NON-IFRS MEASURES

The Company uses IFRS, additional and non-IFRS (or non-generally accepted accounting principles or non-GAAP) measures to make strategic decisions, to set targets and use in operating activities, and as such believes that the additional and non-IFRS measures provide useful supplemental information to investors. "Working capital", "other technology revenues", and "EBITDA" are measures used by the Company that may not have a standard meaning prescribed by IFRS and may not be comparable to similar measures used by other companies.

- EBITDA, an acronym for earnings before interest, taxes, depreciation, and amortization, is calculated by adding back all interest, tax, depreciation and amortization to net income (loss). EBITDA is a non-IFRS measure with the most comparable IFRS measure being net income (loss);
- Other technology revenue consists of Primawave and Performance Drilling revenues. Other technology revenues are non-IFRS measures with the most comparable IFRS measure being revenues; and,
- Working capital is calculated by subtracting current liabilities from current assets. Working capital is a non-IFRS measure with no comparable IFRS measure.

Additional and non-IFRS measures are also viewed as key information as the chief decision maker, being the President and Chief Executive Officer, who regularly reviews such measures in making strategic, expense, and capital investment decisions.



## Management's Discussion and Analysis of Financial Condition and Results of Operations

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### OVERVIEW OF BUSINESS

Wavefront, an Oil Field Service ("OFS") company, provides leading edge technology primarily focused on optimized oil and gas well stimulation and Improved/Enhanced Oil recovery ("IOR/EOR"). For oil and gas well stimulation, Powerwave™, Wavefront's core technology, has proven to optimize both chemical costs and job execution time, thus minimizing overall job cost while positively impacting post-stimulation results. In IOR/EOR applications, Powerwave has been shown to improve oil production rates; decrease oil production decline rates; and increase estimated ultimate oil recovery.

Powerwave is marketed in two primary areas to exploration and production ("E&P") companies:

- i. Well stimulation; and,
- ii. IOR/EOR.

A well stimulation is an operation performed on a well to restore or enhance productivity or improve injection. In certain instances, a chemical is pumped into the well to stimulate a producing or injection interval. In other cases, hydraulic fracturing may be used to boost well performance. Lastly, various stimulation approaches are used to remove scales, such as calcium carbonate or barite, to rid a well of accumulated waxes on tubulars or to remove sand fill. Powerwave stimulations are related to optimized chemical placement or cleaning the wellbore. Depending on the nature of the work, Powerwave stimulations may take several hours to several days.

IOR/EOR targets stranded or bypassed oil in reservoir which is very difficult to mobilize and produce due to various physical limitations. The common theme in IOR/EOR approaches is the injection of a fluid that mobilizes bypassed oil. IOR/EOR projects are usually 12 months or longer in duration.

Key components of Wavefront's business model are geographic diversification, while focusing on the higher-margin higher rate on capital employed by leveraging the Company's Powerwave technology. This means the Company will not only work on projects with E&Ps but leverage other OFS client relations in different geographic regions to increase distribution channels and technology commercialization. In working through other OFS providers as distributors, Wavefront does not need to build and maintain a local presence with field technicians, equipment or infrastructure in the various geographic markets it serves.

Wavefront thus works through distribution, agency, or representation ("Distributor") agreements that encompass representation in 16 countries (but are active in this reporting period in 6 countries), and permits Distributors to market and resell the Company's Powerwave suite of technologies to end users or E&Ps. The agreements provide that the Distributor is generally responsible for contracting directly with and fulfilling the provision of goods or services to the end user, i.e., E&Ps, or their customers, and thus, the Distributor is responsible for the execution and costs of work performance with their customers, inclusive of their customer's satisfaction for its entire general and administrative, sales and marketing expenses. Wavefront is also not exposed to the credit risk decisions of the Distributor; thus, the Distributor bears all risks and rewards in dealing with its customers. Like any other customer, Wavefront does have credit risk in collections from its Distributors.

Distribution agreements do not generally provide for established pricing to end users or E&P's in each country but instead provide a pre-negotiated amount that Wavefront can expect to receive for each bundled Powerwave job or service the Distributor provides to the end user or E&P. The Distributors, however, are entitled to deduct any fees or foreign tax withholdings from any amounts paid to Wavefront. The Company thus, recognizes the net amounts received in its revenue recognition. Wavefront is responsible for supplying Powerwave tools to the Distributor;



## Management's Discussion and Analysis of Financial Condition and Results of Operations

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Powerwave tool replacement, if needed; certain proprietary inventory items required to rebuild or refurbish Powerwave tools, or consumables; and, if needed all Powerwave modeling, and the provision of remote technical support.

Wavefront also sells directly to end users or E&Ps, and other non-distributors, in which case the Company is responsible for fulfilling the provision of goods or services to the end users, or E&Ps. In dealing with end users or E&Ps or non-distributor, Wavefront negotiates an amount that it can expect to receive for each bundled Powerwave job or service.

Wavefront has typically, regardless of dealing with an end user or E&P directly as a customer or dealing with its Distributors, and despite the type of application or product line (e.g., a Powerwave stimulation or IOR/EOR project), bundled its services, jobs or projects, which may include some or all of modelling and programming; tool mobilization and installation; tool rental (or sale); Powerwave licensing; and demobilization. As all Powerwave components are highly integrated, interrelated and interdependent, and are transferred concurrently to the customer (i.e., regardless of if an E&P or non-distributor, or a Distributor), the customer only receives economic benefits from the Powerwave service over the licensed and rental periods (i.e., be it a shorter period for Powerwave stimulation or a longer period for an IOR/EOR project).

As a technology company, Wavefront must support the marketing efforts of distributors. The ideal marketing approach for Powerwave would be for Wavefront personnel or its Distributors business development team to approach a single or group of engineers who could readily accept the merits of the technology and implement it accordingly. However, the ease of such a marketing approach is not reality. In most cases for most E&P's there are multiple groups that must have various criteria satisfied before approving not only a field trial but also on-going work. For example, the production engineering team may wish to implement Powerwave for stimulation work however the reservoir engineering team may be unconvinced of the utility of the technology hence the stimulation may not proceed. Alternatively, a research and technology team charged with bringing new technology to an E&P may identify Powerwave as a unique opportunity for the E&P to exploit to improve oil and gas well stimulation efforts or even a derivative of Powerwave for enhancing secondary oil recovery by water or CO<sub>2</sub> flooding. Even though the research and technology team may have identified Powerwave as a possible gamechanger for the E&P both the reservoir and production engineering teams must also be convinced. As such marketing Powerwave to end users is a multi-pronged approach which may impact the sales cycle.

For water or CO<sub>2</sub> flooding projects the Company have seen sales cycles from introduction to purchase order and implementation of up to 12 months. For Powerwave well stimulation sales cycles may range from several days to several months.

Wavefront's patent portfolio encompasses i) a utility patent(s) related to the general process of dynamic fluid injection (i.e., the Powerwave process) where there is communication with the well bore and geological structure; and, ii) design patents which cover specific tool designs that provide for dynamic fluid injection. Wavefront's patents were registered in various jurisdictions where the Company anticipated future work and have various expiry dates. As a result, the Company generates revenues in some countries where it does not have registered patents, but is protected by its licenses, non-compete and non-circumvent agreements, other intellectual properties (such as the proprietary Powerwave model), etc.

In addition to the aforementioned patent portfolio, the Company's intellectual properties include "know how" or trade secrets required to install and to properly operate Powerwave tools, and a proprietary model which details predictive outcomes and operating protocols for Powerwave well stimulations as related to specific reservoir conditions. The



## Management's Discussion and Analysis of Financial Condition and Results of Operations

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proprietary model, in certain geographic regions, *may be more integral* to the Company's current business than its patents. As Distributors essentially re-sell to their customers, Wavefront provides training of Distributor personnel in the use of Powerwave tools. However, all Powerwave modelling, and job programming is tightly controlled and is performed only by certain Wavefront personnel at the Company's head office in Edmonton, AB.

Wavefront endeavors to continuously develop new technologies and seek new patents, and as such the Company's intellectual property portfolio will continue to evolve.

### CORONAVIRUS AND ECONOMIC UNCERTAINTY

It has been over one-year since the World Health Organization ("WHO") declared a global pandemic following the emergence and rapid spread of a novel strain of the coronavirus ("COVID-19"). COVID-19 continues to have pervasive adverse impact on the broader global economy. While many industrialized countries are advancing immunization programs to the public there remains mixed results in achieving a level where most of the population is immunized. The net effect is that normal or routine business and travel activities have not returned to pre-COVID-19 levels and a timeframe to such a return remains currently unknown.

The continuation of the COVID-19 pandemic presents uncertainty and risk with respect to the Company, its performance, and estimates and assumptions used by Management in the preparation of its financial results. The expected impacts to the Company's revenues and results of operations may be material; however, such impacts remain unknown. Wavefront is subject to liquidity risks in maintaining its revenues and earnings, as well as cash flows and financial condition. These factors, amongst others, are likely to have a negative impact on the Company's ability to raise equity and/or obtain loans and other credit facilities in the future or on terms favourable to the Company.

The Company is directly or indirectly involved in providing goods and services to the oil and gas sector, which has been affected by the impact of COVID-19, as well as other economic factors impacting the oil and gas sector. These conditions continue to exist and may impact certain accounting judgments, estimates, and assumptions used to prepare the consolidated interim financial statements, particularly the measuring of the recoverable amount of, and the carrying value of an asset, as at February 28, 2021.

### Business Continuity

Prior to COVID-19 the Company began to move its information technology systems to a cloud base to support its workforce and distribution partners in the global marketplace. This and in cross training staff, will help establish flexible work solutions to mitigate the impact of COVID-19.

In fiscal 2020, the Company developed information technology as well as health and safety protocols and guidelines to protect our employees, clients and business partners and communities, while recognizing that specific requirements are driven by local government and health authorities. As a result of the guidelines the Company has put in place, Wavefront has been able to continue operations without having its employees work remotely. Where Wavefront is observing project delays or interruptions, it has and will continue to tailor its workforce to align with revenue streams.

Since the WHO declaration of the COVID-19 pandemic in March 2020, the Company has been able to maintain its financial segregations of duties, and internal controls and procedures (see page 25).

## Management's Discussion and Analysis of Financial Condition and Results of Operations

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### Operations

Productivity, as measured by employee utilization, has dropped but is believed to be more a function of revenue jobs as access to oilfield sites has been limited. The Company continues to monitor utilization, recognizing that, like the rest of the world, its employees are experiencing some fatigue as the pandemic persists. The Company will continue to prioritize the distribution of key supplies to mitigate any adverse impacts of supplier reliance.

The Company, due to diversified supply channels, has not seen any material disruptions in the procurement of Powerwave tool components or parts. There have been, like many companies have experienced, delays in logistics in most business operations.

### OUTLOOK

Recently the Organization of the Petroleum Exporting Countries plus nations ("OPEC+") announced the group would ease existing limits on oil production in May 2021. Further to that announcement Saudi Arabia also announced they would relax their voluntary one-million-barrel oil/day cut over a three-month period starting in May. It is not anticipated that the easing of production limits will have a negative impact on short-term oil prices as draws on global oil inventory during the summer months are anticipated to keep pace with the additional supply. While near-term oil prices appear stable there exists uncertainty concerning longer-term oil price forecasting as the time to return to robust, pre-COVID-19 global economic productivity is unknown and may depend on, among other factors, on the length of or continuation of any lockdowns, international travel restrictions, and the pace of increase in global manufacturing activity.

While there is an aggressive roll-out of COVID-19 vaccines being administered across the globe, the global economy continues to grapple with second and third waves of COVID-19 resulting in reinstatement of lockdowns adding further delay to the return of normal global economic activity and thus economic volatility. Such economic volatility may further hamper demand for oil and thus overall activity levels with E&Ps who may hold back well servicing work until such time demand for oil grows. There remains much debate and uncertainty as to the length and depth of the macro and micro disruption occurring in the oil and gas industry. Consequently, Wavefront does not anticipate growth in the near term; indeed, the Company may experience a period of revenue contraction in several areas we serve.

Given the continued uncertainty, Wavefront will continue to exercise disciplined operating cost and capital expenditure controls. Wavefront remains committed to strong project execution, best-in-class service, and will continue to strive toward generating solid gross profit margins<sup>1</sup> to ensure the Company is best positioned to quickly rebound as the economic recovery begins.

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<sup>1</sup> Gross profit is calculated by deducting cost of sales which includes direct costs, such as direct materials, direct labour, travel related expenditures, sub-contractors, shipping, duties and taxes, from revenue. Gross profit margin is calculated by dividing the gross profit by revenue.



## Management's Discussion and Analysis of Financial Condition and Results of Operations

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### OVERALL RESULTS FROM OPERATIONS

Wavefront operates with one reportable segment that covers all aspects of the Company's business.

Wavefront considers the basis on which it is organized, including the economic characteristics (i.e., the nature of the products and services and any bundling or cross use thereof, types of customers, operating segment served within the industry and similarity of segments with other OFS companies, quantitative and qualitative thresholds, etc.) and geographic areas, in identifying its reportable segment. The operating segment 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.

Within this MD&A, however, Wavefront provides additional product level information such as revenues by product line and geography as it believes this additional supplemental information is useful to stakeholders with respect to the development of the business.

Since March 2020, the State of Kuwait ("Kuwait"), has been subject to various government-mandated COVID-19 restrictions. While Kuwait is cautiously progressing towards re-opening business operations travel constraints remain in-place for most foreign visitors and the offices of the sole client in the country, the National Oil Company ("NOC") remain partially closed. Furthermore, the restrictions curtailed all but essential oil field work which additionally set-back Powerwave uptake as well as the continued postponement of the Company's anticipated WaveAxe™ field trials. While the Company and GDMC remain in discussion with the NOC regarding WaveAxe there is no new timetable for a field trial.

And since entering into a new Exclusivity Agreement with GDMC for exclusive rights to Wavefront's Powerwave related intellectual property, know-how and tools for the State of Kuwait, including the Al Khafji Joint Operations region (a common territory along the borders of the Kingdom of Saudi Arabia and the State of Kuwait), work has ebbed and flowed with COVID-19 restrictions and indirect commodity demands. The anticipate increase in activities levels in Kuwait may be negatively impacted with the second and third waves of COVID-19 related restrictions, and thus, activity may not take place till late summer 2021.

Like Kuwait, the Kingdom of Saudi Arabia ("Saudi Arabia") was not immune to aggressive COVID-19 restrictions that impacted Wavefront's marketing efforts and the growth of Powerwave related technology in the country. The stalling of growth in Powerwave was also compounded by unsatisfactory service quality performance of its former exclusive local Distributor, which resulted in the Distributor being excluded from conducting work in oil and gas assets where Wavefront was well positioned with positive Powerwave track records. On September 1, 2020 Wavefront entered into a non-exclusive distribution agreement for Powerwave-related technology with Synergy International Energy Company ("Synergy") as the principal Distributor in Saudi Arabia.

Within the Kingdom of Saudi Arabia, coiled tubing companies providing well services to the NOC are limited in their market access, i.e., no single coiled tubing company has access to all oil and gas fields or wells. Beyond the Company's control, under the previous distributor, a coiled tubing company, Wavefront had seen its Powerwave technology product line activity decline. As the Company engaged a new distributor, as a non-coiled tubing company and despite entering into a one-year equipment rental agreement with a company founded in Weatherford, TX, as expected Wavefront did experience a decline in underlying stimulation activities and thus, revenue generation. The duration of the decline in activity has been exasperated by the second and third waves of COVID-19. Over the longer-term



## Management's Discussion and Analysis of Financial Condition and Results of Operations

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Wavefront believes the Company's current direction in the Kingdom of Saudi Arabia is the best course of action to broaden the use of Powerwave-related technology.

For the second quarter 2021 (i.e., three months ended February 28, 2021) recorded revenues amounted to \$373,118 a decrease of \$332,922 from the comparative quarter (i.e., three months ended February 29, 2020) revenues of \$706,040. Of the revenues for the reporting quarter, \$374,863 (February 29, 2020 - \$525,238) relates to Powerwave stimulations, with \$320,945 of those revenues being derived from the Middle East, a decrease of \$147,878 over the comparative quarter. The decrease in Powerwave stimulations in the Middle East is related to lower numbers of Powerwave stimulations occurring because of limited oil field access and marketing abilities related to the ongoing COVID-19 pandemic, and the change of distributors in Saudi Arabia. Similarly, in the State of Kuwait, the volume of Powerwave stimulations performed declined from the first quarter due to limited oil field access and marketing abilities related to the ongoing COVID-19 pandemic however, the related revenues did not exceed the minimum guaranteed under agreement with the Company's Kuwait Distributor.

In fiscal 2020, the Company's Distributor in Colombia completed four Powerwave Odyssey and four Powerwave SAN stimulations. There remain five Powerwave Odyssey stimulations to be completed from the initial ten well contracted program granted to Wavefront's Distributor. The remaining Powerwave work and the installation of a dual Powerwave Dragonfly IOR/EOR system have been delayed due to COVID-19 with project completion remaining unclear.

Revenues for the first quarter 2021 in the USA were also not as expected given limited oil field access due to COVID-19, Texas weather anomalies, and the potential in US \$500,000 revenues related to the General Services Agreement ("GSA"), which was announced on September 9, 2019, and still cannot be recognized, at this time, due to unforeseen, circumstances beyond the Company's control. It is the intent of the Company, at this time, to continue, in good faith, to work with executive management of the E&P client to which the GSA was executed. Once the Company can recognize revenues, in accordance with IFRS, the Company will accordingly disclose any such recognition.

### Consolidated Results – six-months ended February 28, 2021

#### Revenues

Revenues for the six month period ended February 28, 2021 totalled \$818,878, a decrease of \$587,847 from the comparative period revenues of \$1,406,725. Revenues related to Powerwave stimulations for the period ended February 28, 2021 totalled \$760,161 (2020 - \$1,221,605). Powerwave stimulation revenues for the reporting quarter from the Middle East totalled \$704,338 (2020 - \$1,039,969). North American stimulation revenues totalled \$46,312 and remain behind historical norms, and in part due to the unrecognized revenues related to the GSA noted above, while Powerwave stimulation in other international regions totalled \$9,511.

Revenues for the six months ended February 28, 2021, related to Powerwave IOR/EOR projects totalled \$nil (2020 - \$180,802), and Other Technology revenues totalled \$58,717 (2020 - \$nil).

Geographically, \$95,309 (2020 – \$244,193) in revenue was generated in North America, \$704,338 (2020 - \$1,039,969) in the Middle East, and \$19,231 (2020 - \$122,563) in other international geographic regions. The geographic revenues are more specifically described as follows:

**North America:** Revenues in North America decreased by \$148,884 to \$95,309 compared to \$244,193 in the comparative quarter principally due to the comparative quarter's sale of IOR/EOR Powerwave systems for



## Management's Discussion and Analysis of Financial Condition and Results of Operations

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\$180,802. Powerwave stimulation revenues in North America totalled \$46,312 (2020 - \$63,391) but have yet to return to historical norms in part due to the unrecognized revenues related to the GSA noted above; Other Technology revenues totalled \$48,997 (2020 - \$ nil).

**Middle East:** Revenues in the Middle East totalled \$704,338 (2020 - \$1,039,969), all of which is related to Powerwave stimulation revenues for both the current and comparative reporting periods.

**Other International:** Revenues outside of North America and the Middle East totalled \$19,231 (2020 - \$122,563). Powerwave stimulation revenues in other international markets totalled \$9,511 (2020 - \$118,245); and Other Technology revenues totalled \$9,720 (2020 - \$4,318).

### Costs of Sales

Under IFRS cost of sales includes direct labour, wage benefits and associated stock option benefits, consumable (i.e., inventory) parts, as well as third party installation costs of Powerwave and Primawave product lines.

Any losses related to Powerwave projects are immediately recognized and have the effect of increasing direct costs for the period in which they occur or are known to occur.

Costs of sales for the six month period ended February 28, 2021 totalled \$33,907 or 4.1% of revenues (February 29, 2020 - \$67,054 or 4.8% of revenues), which is principally impacted by a greater proportion of revenues being derived through Distributors, and more-over, the majority of revenues being recognized by agreements providing minimum numbers of Powerwave stimulation jobs or guaranteed revenues, and thus, there were little direct costs (i.e., minimal well modelling, field labour, direct labour and inventory for Powerwave tool refurbishing).

Costs of sales associated with all Powerwave stimulations totalled \$33,907 (2020 - \$21,605).

### Expenses

In the comparative period ended February 29, 2020 the Company fully impaired the \$211,965 of raw materials and consumable inventory recorded within the equipment under construction, under the tools and equipment asset segment to the estimated net realizable value of \$nil. COVID-19, as well as volatility in spot prices for oil, created material uncertainties, and also impacted the Company's ability to consume or sell these inventory items within next twelve months from February 29, 2020.

General and administrative, sales and marketing, research and development, and amortization and depreciation expenses for the six months ended February 28, 2021, declined by \$158,271 to \$1,638,789, compared to \$1,797,060 on February 29, 2020. The changes within these expenses were principally a result of the following changes:

- i) General and administrative expenses increased by \$35,423 (February 28, 2021 - \$1,204,172; February 29, 2020 - \$1,168,749). The change in general and administrative expenses were as follows with the noted variances:



## Management's Discussion and Analysis of Financial Condition and Results of Operations

	Six months ended		
	February 28, 2021	February 29, 2020	Variance
Wages, wage expenses and benefits	\$ 532,132	\$ 523,221	\$ 8,911
Office	177,706	206,116	(28,410)
Consultants	136,721	111,814	24,907
Public company & listing fees	110,147	101,620	8,527
Professional fees	102,276	156,721	(54,445)
Bad Debts	59,284	31,281	28,003
Repairs and maintenance	55,984	23,436	32,548
Vehicle	27,732	13,251	14,481
Miscellaneous	2,190	1,289	901
	<u>\$ 1,204,172</u>	<u>\$ 1,168,749</u>	<u>\$ 35,423</u>

With the increases to the Company's general and administrative expenses i.e., consulting fees, repairs and maintenance and vehicles expenses, are expected expenses incurred related to and in support of the Company's distributor in the Kingdom of Saudi Arabia. The increase in bad debt relates to the full impairment of one invoice pertaining to a prior period's demobilization of an IOR/EOR project.

- ii) Amortization and depreciation expense decreased by \$36,914 to \$153,528 from the comparative period as depreciation and amortization expense of the right-of-use asset was coming to a conclusion. With entering into a new five-year lease, it is expected that future depreciation and amortization expense will increase by approximately \$3,852 per month.
- iii) Research and development expense decreased by \$54,179 to \$57,241. Research and development expense relates to labour of the Company's physicist and reservoir engineer that support our Powerwave product line and the development of a prototype high flow rate Powerwave Odyssey tool for multilateral horizontal wells. The high flow rate Powerwave Odyssey tool is hoped to allow the Company's distributors to enter into a sector of wells not currently open to stimulation via the current Powerwave Odyssey tool.

The changes in research and development expenses relates to a decrease in material and external engineering consulting of \$42,441, and the functional allocation of fully built-up wages of \$11,738.

During the fiscal year 2020, the Company successfully developed a high flow rate Powerwave Odyssey tool for use in multilateral horizontal wells. The Company will move into limited commercial production of high flow rate Powerwave Odyssey tools in the coming reporting periods. As a result, it is anticipated that materials and external engineering consultation expenses will continue to decline in the coming months.

Depending on COVID-19 impacts and travel restrictions, the Company anticipates marketing the new high flow rate Powerwave Odyssey tool in the middle to late calendar 2021.

- iv) Sales and marketing expenses decreased by \$102,601 to \$223,848. During the reporting period there was a decrease of \$149,644 travel related expenses that mainly relate to travel to the Middle East, a decrease of \$9,526 in meals and entertainment, and a decrease of \$8,545 in marketing and advertising expense.



## Management's Discussion and Analysis of Financial Condition and Results of Operations

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During part of the reporting period sales personnel in Canada were temporarily laid off. However, this decrease in sales force was offset with the hiring of personnel in the Permian basin in Texas in the latter part of the reporting period to help diversify the Company's customer base and return USA Powerwave revenues to pre-COVID-19 historical norms. As a result, there was a net increase in the allocation of fully built-up labour sales and marketing costs of \$65,023.

The continued COVID-19 social distancing and travel restrictions will continue to impact marketing budgets in the near term.

### Net Finance Section of Income

Financing costs of \$4,694 (2020 - \$7,221) includes interest expense, for both reporting quarters that relates to interest on insurance financing contracts, and interest expense of \$2,944 relates to lease liability (i.e., IFRS 16). As the prior lease came to an end on January 31, 2021, the lease interest expense was minimal in the current period. The Company expects future periods to have higher interest cost related to the new lease.

During the fourth quarter 2020, the Company began accessing Canada Emergency Wage Subsidy ("CEWS"), a wage subsidy program offered by the Canadian government until June 2021 to qualifying employers who have seen a drop in revenues due to COVID-19. Also, during the second quarter 2021, the Company accessed the Canada Emergency Rent Subsidy ("CERS"), a rent subsidy program offered by the Canadian government. As a result of accessing the CEWS and CERS programs, the Company recognized non-refundable government grants of \$89,918 (February 29, 2020 - \$nil).

Financing income of \$13,594 (2020 - \$14,639) includes interest earned for the reporting quarters. Interest earned relates to the investment of funds principally from the private placement that was closed and announced on July 17, 2018, and cash inflows since that private placement.

Foreign exchange loss of \$8,358 (2020 - \$2,459) is a result of the translated difference between spot rates and the average for the year of items in the Company's Canadian entity.

### Operating Cash Flows

The following table sets out the cash used in operations for the six months ended February 28, 2021 and February 29, 2020:

	<b>Six months ended</b>	
	<b>February 28, 2021</b>	<b>February 29, 2020</b>
Net Loss	\$ (763,358)	\$ (664,395)
Changes to net loss not involving cash		
Amortization and depreciation	153,528	190,442
Impact of foreign translation	1,625	3,838
Impairment to non-current inventory	-	211,965
Interest expense	(4,694)	(7,221)



## Management's Discussion and Analysis of Financial Condition and Results of Operations

	Six months ended	
	February 28, 2021	February 29, 2020
Changes to working capital		
Change in trade and other receivables	254,696	(418,076)
Change in inventory	19,609	(7,086)
Change in unearned revenue	13,804	74,149
Interest paid	4,694	7,221
Change in trade and other payables	(13,797)	157,032
Change in prepaid expenses	(52,578)	(131,249)
Cash from operating activities	\$ (386,471)	\$ (583,380)

Cash used in operating activities were negatively impacted by the net changes in non-cash working capital items (see Liquidity section on page 15, below), and in particular, the collection of US \$225,000 (or approximately \$285,413 Canadian if translated at the balance sheet exchange rate) in receivables that was subsequently collected.

### Net Loss and Comprehensive Loss, and Loss Per Share

The net loss for the six months ended February 28, 2021 increased by \$98,963 to \$763,358 (or basic and diluted net loss of \$0.009 per share), compared to the net loss of \$664,395 (or basic and diluted net loss of \$0.008 per share) for the comparative period ended February 29, 2020.

The comprehensive loss for the six months ended February 28, 2021 of \$764,822 and was impacted by foreign translation loss of \$1,464 on its foreign, wholly owned, subsidiary in the United States versus the reported comprehensive loss of \$664,034 reported in the comparative reporting quarter ended February 29, 2020.

### Earnings before interest tax, depreciation and amortization ("EBITDA")

The following table sets out the Company's EBITDA loss and EBITDA loss per share:

	Six months ended	
	February 28, 2021	February 29, 2020
Net loss	\$ (763,358)	\$ (664,395)
Items not affecting cash		
Amortization and depreciation	153,528	190,442
Interest and tax expense	5,731	7,221
EBITDA	\$ (604,099)	\$ (466,732)
EBITDA loss per share	\$ (0.007)	\$ (0.005)

*note 1: EBITDA is calculated by adding back all interest, tax, depreciation and amortization to net loss, and is further discussed in Non-IFRS Measures*



## Management's Discussion and Analysis of Financial Condition and Results of Operations

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Excluding the impairment of the non-current inventory of \$211,965 in the comparative period, the EBITDA loss would have been \$254,767 (or the EBITDA loss of \$0.003).

### CONSOLIDATED RESULTS – THREE MONTHS ENDED FEBRUARY 28, 2021

#### Revenues

For the second quarter ended February 28, 2021 gross revenues totalled \$373,118, decreasing \$332,922 over the comparative quarter ended February 29, 2020 that recognized revenues of \$706,040. Revenues related to Powerwave stimulations for the second quarter 2021 totalled \$347,863 compared to \$525,238 in the comparative quarter. Powerwave stimulation revenues for the reporting quarter for the Middle East totalled \$320,945 (2020 - \$468,823). North American stimulation revenues totalled \$23,217 (2020 - \$23,550) and remain behind historical norms in part due to the unrecognized revenues related to the GSA noted above, while Powerwave stimulation in other international regions totalled \$3,701 (2020 - \$32,865).

Powerwave IOR/EOR projects totalled \$nil (2020 - \$180,802) and pertains to the sale of IOR/EOR Powerwave systems and Other Technology revenues totalled \$25,255 (2020 - \$nil).

Geographically, \$42,182 (2020 – \$204,352) in revenue was generated in North America, \$320,945 (2020 - \$468,823) in the Middle East, and \$9,991 (2020 - \$32,865) in other international geographic regions. The geographic revenues are more specifically described as follows:

**North America:** Revenues in North America decreased by \$162,170 to \$42,182 compared to \$204,352 in the comparative quarter principally due to the comparative quarter's sale of IOR/EOR Powerwave tools for \$180,802. Excluding the comparative quarter's sale of IOR/EOR Powerwave tools for \$180,802, revenues for the quarter increased by \$18,632. Powerwave stimulation revenues in North America totalled \$23,217 (2020 - \$23,550) and remain behind historical norms in part due to the unrecognized revenues related to the GSA noted above, and Other Technology revenues totalled \$18,965 (2020 - \$nil).

**Middle East:** Revenues in the Middle East totalled \$320,945 (2020 - \$468,823), all of which us related to Powerwave stimulation revenues in both the current and comparative reporting quarters.

**Other International:** Revenues outside of North America and the Middle East totalled \$9,991 (2020 - \$32,865). Powerwave stimulation revenues in other international markets totalled \$3,701 (2020 - \$32,865); and Other Technology revenues totalled \$6,290 (2020 - \$ nil).

#### Costs of Sales

Costs of sales associated with all Powerwave stimulations totalled \$15,465 (2020 - \$15,839) due the recognition of minimum or guaranteed revenues with little or no direct costs.



## Management's Discussion and Analysis of Financial Condition and Results of Operations

### Expenses

As at February 29, 2020 the Company fully impaired the \$211,965 of raw materials and consumable inventory recorded within the equipment under construction, under the tools and equipment asset segment to the estimated net realizable value of \$nil. COVID-19, as well as, recent abnormal volatility in spot prices for and over supply of oil, which created material uncertainties, and also impacted the Company's ability to consume or sell these inventory items within the next twelve months from February 29, 2020.

General and administrative, sales and marketing, research and development, and amortization and depreciation expenses for the second quarter ended February 28, 2021, decreased by \$82,618 to \$804,297, compared to \$886,915 for February 29, 2020. The change in these expenses was principally a result of the following changes:

- i) General and administrative expenses increased by \$20,713 (February 28, 2021 - \$602,229; February 29, 2020- \$581,516) with the following noted variances:

	Three months ended		Variance
	February 28, 2021	February 29, 2020	
Wages, wage expenses and benefits	\$ 264,053	\$ 262,062	\$ 1,991
Office	75,049	103,740	(28,691)
Bad Debts	59,295	23,813	35,482
Public company & listing fees	55,557	55,203	354
Professional fees	53,237	77,055	(23,818)
Consultants	52,621	40,182	12,439
Repairs and maintenance	28,999	11,143	17,856
Vehicle	12,287	7,227	5,060
Miscellaneous	1,131	1,091	40
	<u>\$ 602,229</u>	<u>\$ 581,516</u>	<u>\$ 20,713</u>

- ii) Amortization and depreciation expense decreased by \$21,534 to \$75,239 from the comparative period. With entering into a new five-year lease, it is expected that future depreciation and amortization expense will increase by approximately \$3,852 per month.
- iii) Research and development expense decreased by \$32,867 to \$18,237. The changes in research and development expenses relates to a decrease in material and external engineering consulting of \$20,436, and the functional allocation of fully built-up wages of \$12,431.
- v) Sales and marketing expenses decreased by \$48,930 to \$108,592. During the reporting quarter there was a decrease of \$77,348 travel related expenses that mainly relate to travel to the Middle East, a decrease of \$5,103 in meals and entertainment, a decrease of \$2,836 in marketing and advertising expenses, with an offsetting increase in the allocation of fully built-up labour sales and marketing costs of \$36,556.



## Management's Discussion and Analysis of Financial Condition and Results of Operations

### Net Finance Section of Income

Financing costs of \$3,236 (2020 - \$3,952) includes interest expense, for both reporting quarters that relates to interest on insurance financing contracts, and interest expense of \$2,308 relates to the lease liability.

During the second quarter 2021, the Company accessed CERS and CERS programs, and recognized non-refundable government grants of \$40,275 (February 29, 2020 - \$nil).

Financing income of \$3,700 (2020 - \$6,876) includes interest earned for the reporting quarter. Interest earned relates to the investment of funds principally from the private placement that was closed and announced on July 17, 2018, and cash inflows since that private placement.

Foreign exchange loss of \$9,934 (2020 – gain of \$3,380) is a result of the translated difference between spot rates and the average for the year of items in the Company's Canadian entity.

### Operating Cash Flows

The following table sets out the cash used in operations for the second quarter ended February 28, 2021 and February 29, 2020:

	Three months ended	
	February 28, 2021	February 29, 2020
Net Loss	\$ (415,839)	\$ (419,612)
Changes to net loss not involving cash		
Amortization and depreciation	75,239	96,773
Impact of foreign translation	689	6,168
Impairment of non-current inventory	-	211,965
Interest expense	(3,236)	(3,952)
Changes to working capital		
Change in trade and other receivables	130,232	34,107
Change in prepaid expenses	38,824	16,979
Change in inventory	5,279	(34,291)
Interest paid	3,236	6,168
Change in unearned revenue	(13,780)	807
Change in trade and other payables	(116,261)	34,107
Cash from operating activities	\$ (295,617)	\$ (50,781)

Cash used in operating activities were negatively impacted by the net changes in non-cash working capital items (see Liquidity section on page 15, below), and in particular, the collection of US \$225,000 (or approximately \$285,413 Canadian if translated at the balance sheet exchange rate) in receivables, which related to the quarter's revenues, that was subsequently collected.



## Management's Discussion and Analysis of Financial Condition and Results of Operations

### Net Loss and Comprehensive Loss, and Loss Per Share

The net loss for the second quarter 2021, i.e., the three months ended February 28, 2021 was \$415,839 (or \$0.005 basic and diluted loss per share). Despite the decrease in revenues of \$332,922, net losses marginally decreased by \$3,773, from the comparative quarter ended February 29, 2020, which reported a net loss of \$419,612 (or \$0.005 basic and diluted loss per share). Excluding the impairment of non-current inventory of \$211,965, the net loss for the comparative quarter the net loss would have been \$207,647 (or \$0.002 basic and diluted loss per share).

The comprehensive loss for the second quarter 2021 was \$416,999 and was impacted by foreign translation loss of \$1,160 on its foreign, wholly owned, subsidiary in the United States versus the reported comprehensive loss of \$416,788 reported in the comparative reporting quarter ended February 29, 2020.

### Earnings (loss) before interest tax, depreciation and amortization ("EBITDA")

The following table sets out the Company's EBITDA (loss) and EBITDA (loss) per share:

	Three months ended	
	February 28, 2021	February 29, 2020
Net Loss	\$ (415,839)	\$ (419,612)
Items not affecting cash		
Amortization and depreciation	75,239	96,773
Interest and tax expense	4,273	3,952
EBITDA (loss)	\$ (336,327)	\$ (318,887)
EBITDA (loss) per share	\$ (0.004)	\$ (0.004)

*note 1: EBITDA is calculated by adding back all interest, tax, depreciation and amortization to net loss, and is further discussed in Non-IFRS Measures*

Excluding the impairment of the non-current inventory of \$211,965, the EBITDA loss would have been \$106,922 (or the EBITDA loss of \$0.001). EBITDA was also impacted by the adoption of IFRS 16 as described elsewhere.

### LIQUIDITY AND CAPITAL RESOURCES

#### Assets

Total assets decreased by \$279,177 from the prior year end to \$3,092,321, the changes of which principally relates to the decrease of \$500,169 in cash and cash equivalents, of which \$386,471 is attributed to cash used in operations, and the reduction of trade and other receivables of \$254,696, which is related to decreased revenues.

In addition to cash used in operations, cash of \$64,204 was also used for the principal repayment of the lease, and \$46,613 relates to the purchase of assets for the Company's new Distributor in Saudi Arabia.



## Management's Discussion and Analysis of Financial Condition and Results of Operations

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Current assets were also impacted by decreases in inventories by \$19,609 and increases in prepaid expenses \$52,578 that are a result of prepayment of insurance fees that were not financeable, and the prepayment of TSX Venture Exchange and OTCQB Venture Market annual filings fees.

Within non-current assets, the net book value of property, plant and equipment declined by \$4,171, and was principally a result of the amortization and depreciation expense of \$79,724, and a decrease in intangible assets by \$2,459 due to amortization.

Other than the aforementioned decreases in cash and cash equivalents and trade and other receivables, the principal change in total assets consists of the recognition of a new right-of-asset in the amount of \$520,675 associated with the new lease. In addition, and associated with the new lease, the Company recognized a leasehold improvement asset of \$29,660. The recording of the right-of-use asset and leasehold improvements total \$550,335 relate to the accounting related to the new lease.

Commencing February 1, 2021, the right-of-use assets will be amortized by approximately \$8,678 per month with the leasehold improvements amortized by \$494 per month over the five year term of the new lease term.

### Liabilities

Total liabilities increased by \$485,645 from the prior year-end to \$1,194,398. Of the changes in liabilities, \$7,865 relates to decreases in trade accounts payable and other accrued liabilities, and \$13,804 relates to increase in unearned revenue. As at February 28, 2021, trade accounts payable totalled \$261,290, trade accruals \$178,091, notes payable related to insurance contract financing \$54,806, vacation accruals of \$50,264, and payroll tax and workers compensation accruals of \$6,664.

Unearned revenues principally relate to timing difference associated with payments received ahead of revenue recognition, but moreover, the remittance of monies paid by international Distributors in excess of what the Company believes to be the correct foreign tax withholding amounts.

The principal change in liabilities consist of the recognition of the liabilities associated with the new lease of \$520,675 (i.e., a current liability of \$64,883 and no-current liability of \$455,792). The recording of the current lease liability of \$64,883 has no offsetting of current assets and impacts working capital and other liquidity ratios.

The lease liabilities are reduced with the recognition of future lease payments. In addition, and associated with the new lease, the Company recognized a lease inducement of \$29,660. Of the increase in total liabilities of \$485,645, \$550,335 relate to the accounting related to the new lease.

### Liquidity

The Company continues to able to meet its liquidity needs through cash generated from operations and from unrestricted monies in high interest savings accounts.

With the COVID-19 pandemic, the Company has experienced longer delays in realizing on its receivables, which has impacted cash resources. Thus, working capital has seen large recent quarter over quarter large variances, as Distributor clients have been delaying payment of large receivables owing to Wavefront.



## Management's Discussion and Analysis of Financial Condition and Results of Operations

The Company remains focused on invoicing and collection activities. During the COVID-19 pandemic, the Company has not experienced a material increase in bad debt allowances, but the Company has a bad debt impairment of one invoice in the amount of \$59,828 (US \$45,000) for the reporting quarter that related a prior periods IOR / EOR project.

It is anticipated that, in at least the near term, working capital, and cash from operations will continue to fluctuate. Given the Company's reliance on Distributors as well as a few key customers, should certain expected cash inflows not materialize in the amounts or at the times expected, cash on hand could be significantly reduced in the coming fiscal year. However, the Company is in frequent contact with its key Distributors and customers, continues to have good working relationships, collaborates on paths forward for business development, and reviews the credit quality of its counterparties, and thus, despite the COVID-19 environment.

In managing the Company's risks related to its higher reliance on a few foreign Distributors, the Company recently acquired Export Development Canada ("EDC") Credit Insurance, wherein 90% of insured receivable losses are covered against non-payment caused by a variety of events. The Company's EDC Credit Insurance is currently for specific customers and activities in the Kingdom of Saudi Arabia and the state of Kuwait, where 86.0% of revenues for the quarter were generated.

As of April 27, 2021, Wavefront had \$1,543,369 of cash and cash equivalents on hand. Of the cash on hand, Wavefront has \$940,082 in high interest savings accounts with annualized interest rate of 1.70%. The cash and cash equivalents of \$1,543,369 as at April 27, 2021, represents only a decrease of \$134,277 since the end of the first quarter ended November 30, 2020.

### Working Capital

The following table presents working capital information as at February 28, 2021 and August 31, 2020:

	<b>As at February 28, 2021</b>	<b>As at August 31, 2020</b>	<b>Change</b>
Current assets	2,025,692	2,747,588	(721,896)
Current liabilities	(723,459)	(708,753)	(14,706)
Working capital <sup>1</sup>	1,302,233	2,038,835	(736,602)

*Note 1: Working capital is calculated by subtracting current liabilities from current assets, and is further discussed in Non-IFRS Measures*

Changes in working capital relate to the net decreases in current assets of \$721,896 (i.e., decreases in cash and cash equivalents of \$500,169, decreases in trade and other receivables of \$254,696 that is tied to decreases in revenues, and decreases in inventory of \$19,606 which were offset by increases in prepaid expenses of \$52,578). Working capital was impacted to a lesser degree as there was an increase of unearned revenue of \$13,804, and increases in current lease liabilities of \$8,767, which was offset by decreases in trade accounts payable and accrued liabilities of \$7,865. The recording of the current portion of the lease liability and lease inducement totalling \$70,815 has negatively impacted the Company's working capital.

Wavefront believes that its working capital position will continue to fluctuate, and that the Company's cash flow will be affected by the degree of Powerwave commercialization; the ability of Distributors and Third Parties to obtain additional Powerwave work with end users or E&Ps; and, the mix between Powerwave product lines.



## Management's Discussion and Analysis of Financial Condition and Results of Operations

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### Financings

There were no financings during the reporting or the comparative period. Given the Company's stage of development, the COVID-19 pandemic, oil and gas demand and commodity prices both related and unrelated to COVID-19, and global economic uncertainty, it is currently believed that beyond any potential government funding, there are few financing sources available to Wavefront. Any future financings, if available, will also be dependent on Wavefront's credit rating, quality of licensing contracts, etc. and other relevant financing factors.

The Company did not default nor was it in arrears on any contractual commitments or leases and is not subject to any penalties related to delayed payments.

### Capital Management

Currently, and in addition to the Contractual Commitments (noted below), and in accordance with Wavefront's strategic plan, cash resources will be judiciously managed, however will be used for the following:

- Ensuring the Company's solvency;
- To maintain an inventory of Powerwave tool systems and related activities; and,
- To support strategic marketing efforts related to near-term revenue generation.

There are currently no known trends or restrictions in Wavefront's capital resources. However, for the reasons noted above, the Company expects working capital to continue to fluctuate.

Credit risk of any deposits is linked to the insurance coverage limits as prescribed by the Canadian Deposit Insurance Corporation and that of National Bank Financial.

At February 28, 2021, the Company had yet to achieve profitable operations, had an accumulated deficit of \$75,849,035 (August 31, 2020 - \$75,085,677), and for the six month period ended February 28, 2021 had a net loss of \$763,358 (six months ended February 29, 2020 - \$664,395). The impact of the COVID-19, amongst other things, has created a great deal of uncertainty as to the health and time-frame for recovery of the global economy. These resulting material uncertainties, together with the lack of continuing profitable operations may cast significant doubt to continue as a going concern. As a result, whether and when the Company can obtain profitability and positive cash flows from operations for the next twelve months is uncertain.

COVID-19 has impacted access to client and E&P end user oilfield well sites, and thus, has impacted income (losses) and cash inflows. As the Company operates in multiple jurisdictions, impacts are based on local government policies, rules, and stimulation or recovery programs will impact the extent and duration of the impacts to Wavefront's business are currently unknown and not measurable.

To bolster the Company's ability to withstand the impacts of the COVID-19 pandemic, the Company has significantly reduced discretionary spending and capital expenditures. As well given the potential negative impact to future operating cash flows, the Company has commenced accessing the following government economic support mechanisms:

## Management's Discussion and Analysis of Financial Condition and Results of Operations

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- i) The Company has continued to access non-refundable grants from the Canada Emergency Wage Subsidy ("CEWS") program. CEWS was established in March 2020 to support employers and their employees, during the COVID-19 pandemic by providing a wage subsidy with respect to eligible remuneration paid by eligible employers who have experienced a drop in revenue related to COVID-19. CEWS is administered by the Canada Revenue Agency ("CRA") on a period-by-period basis, with each period spanning four weeks. There is no maximum dollar amount a business can receive from the program; however, there is a maximum limit on the amount of subsidy a business can receive for a single employee's weekly wages. The subsidy amount for each employee is calculated by determining the CEWS rate (which is a function of revenue declines, and for Wavefront calculated on the cash basis) and multiplying by eligible employee wages.

During the three and six months ended February 28, 2021, the Company was not eligible for the non-refundable grants in every four-week period but was still able to access \$30,582 and \$80,526, respectively (2020 - \$nil) in CEWS non-refundable grants. Future CEWS non-refundable grants will be dependent on revenue declines and individual employee limits.

- ii) During the second quarter 2021, the Company accessed the new Canada Emergency Rent Subsidy ("CERS") program. CERS is administered by CRA for businesses that have seen a decline in revenues (i.e., same calculation and measurements as the CEWS program) due to the COVID-19 pandemic and may be eligible for a subsidy of up to 65% per cent of eligible business property expenses (i.e., base rent, operating expenses, property insurance, utilities, property and similar expenses and ancillary fees such as cleaning expenses) up to a maximum of \$75,000 per period, between the period of September 27, 2020, until June 2021. The CERS program provides support directly to tenants instead of property owners and allows companies to make retroactive claims.

During the three and six months ended February 28, 2021, the Company was not eligible for the non-refundable grants in every four-week period but was still able to access \$9,750 (2020 - \$nil) in CERS non-refundable grants. Future CERS non-refundable grants will be dependent on revenue declines and the calculated eligible rent amounts.

- iii) During the second quarter the Company completed an application for a loan, which may be eligible for forgiveness, for its US subsidiary, Wavefront Technology Solutions USA Inc. to help keep its workforce employed during the COVID-19 pandemic. The loan is administered by the Small Business Administration ("SBA"), under the Paycheck Protection Program, and has "three draws" or stages to the program. The Company made a loan application of US \$27,420 under the "first draw" of the Paycheck Protection Program.

As at April 27, 2021, the Company's application was in the queue awaiting SBA approval. Given the uncertain demand for Paycheck Protection Program loans, it is possible that not all qualified applicants will receive SBA approval. Although the Company believes it qualified for the first draw SBA Paycheck Protection Program, it has yet to receive approval. The Company believes it is ineligible for the "second draw" of the program. There is no assurance that the first draw PPP application and loan will be approved, and if approved, there is no assurance that the loan will be forgiven and become a grant.

The Company has or will categorize the above grants or subsidies and loans by their nature (i.e., as cash, a receivable or loan) on its Consolidated Statement of Financial Position. Non-refundable contributions made under the various programs are recorded as "Government Assistance" under Other Income within the Statements of Net Loss and Comprehensive Loss when there is reasonable assurance that the assistance will be received and that there are no unfulfilled conditions and other contingencies attaching to government assistance.



## Management's Discussion and Analysis of Financial Condition and Results of Operations

It is currently believed that the material uncertainties related to COVID-19, and oil and gas demand has fostered a great deal of uncertainty as to the time-frame for recovery of the global economy, and has impacted foreign exchange and interest rates, government policies, E&P activities within the oil and gas sectors. Together with the lack of continuing profitable operations, economic reliance on limited key distributors or customer, creates material uncertainties in the near term, and may impact Wavefront's abilities to generate revenues, collect on amounts when due, or obtain conventional or equity financing.

Given the Company's priority of sustainability, all capital and future expenditures, inclusive of research and development projects, will be governed by the Company's working capital position throughout the year.

### CONTRACTUAL COMMITMENTS

The Company has entered into long-term contractual arrangements from time-to-time for facilities, lines of credit, and the provision of goods and services. The following table presents contractual obligations arising from these arrangements currently in force:

	Payments Due by Period				
	Total	Less than 1 Year	1 - 3 Years	3 - 5 Years	More than 5 Years
Contractual commitments and variable lease payment	\$ 322,637	\$ 89,452	\$ 178,610	\$ 54,575	\$ -
Lease liabilities	592,150	99,667	374,508	117,975	-
	\$ 914,787	\$ 189,119	\$ 553,118	\$ 172,550	\$ -

*Note 1: Recently the Company entered into a new office and warehouse lease for its Edmonton, Alberta operations. The office and warehouse lease had a commencement date of February 1, 2021 and a five year term expiring on January 31, 2026.*

### OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.

### TRANSACTIONS WITH RELATED PARTIES

The Company has no transactions with related parties.

### PROPOSED TRANSACTIONS

At the time of this report the Company has no undisclosed proposed transactions.

### RISK AND UNCERTAINTIES

The Company's business risks and uncertainties are the same as disclosed in its annual MD&A issued for the year ended August 31, 2020.



## Management's Discussion and Analysis of Financial Condition and Results of Operations

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### ENVIRONMENTAL RISK

The Company's environmental risks are the same as disclosed in its annual MD&A issued for the year ended August 31, 2020.

### CLIMATE GOVERNANCE AND RISK MANAGEMENT

Aspects of climate change risk and opportunities that most influence Wavefront's business strategy are: future regulatory changes and associated compliance costs, commodity prices, access to markets and capital, social preferences, general capital investment declines in the energy sector, and reputational and Environmental, Social and Governance ("ESG") risk (related to climate change, human rights and ethical and sustainable business practices), and technology development.

The Company currently has a Safety, Health and Environmental policy as part of its Corporate policy manual. The Safety, Health and Environmental policy assists the Board in fulfilling its obligations relating to safety, health and environmental matters concerning Wavefront. Safety and protection of the environment have always been top priorities in Wavefront's business operations. Wavefront believes dedication to safety and environmental protection go beyond implementing the right policies and having the right equipment or department; but ensuring that everyone at Wavefront is aware of both their responsibility for safety matters and protection of the environment and how integral those matters are to the Company's business.

Wavefront is in the process of augmenting its Safety, Health and Environmental policy to include a multi-disciplinary risk management process, which considers ESG and climate change risks and opportunities as part of Wavefront's business evaluation. Processes for identifying, assessing, and managing climate-related issues will be integrated into the Company's enterprise risk management ("ERM") framework.

Although climate change and ESG could negatively impact energy sector activity, it also represents an opportunity for Powerwave's smart technology that does not require capital investment by end users or E&P, reduces operating cost by decreasing volumes of water or chemical injection and E&P operating horsepower, while reducing need for more frequent stimulations and increasing near term productions and thus, E&P income and cash flows.

### CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Company's critical accounting policies and estimates are the same as disclosed in its Audited Consolidated Financial Statements and Notes, and its annual MD&A issued for the year ended August 31, 2020.

### CHANGES IN ACCOUNTING POLICIES

The changes in accounting policies are disclosed in Note 2, "*Statement of Compliance*", of the Unaudited Interim Condensed Consolidated Financial Statements for the quarter ended February 28, 2021.

### FINANCIAL AND OTHER INSTRUMENTS

Wavefront's significant financial and other instruments consist of accounts receivable, accounts payable and accrued liabilities and interest-bearing obligations such as its operating line, and other amounts that will result in future cash outlays.



## Management's Discussion and Analysis of Financial Condition and Results of Operations

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### Credit Risk

Credit risk arises from the potential that a counterparty will fail to perform its obligations. Wavefront's financial instruments that are exposed to concentrations of credit risk consist primarily of accounts receivable. Concentrations of credit risk with respect to accounts receivable also exists, as the top three customers currently comprise 92.1% (2020 – 88.2%) of total revenues. However, the majority of transactions are with larger oil field service companies in the Middle East or publicly traded corporations in the United States of America.

In light of the ongoing COVID-19 pandemic, the Company may negotiate some payment extensions with both our vendors and clients. At this time, the Company has not made significant extensions (other than the prior quarters' financing of past amounts due) to our clients or Distributors.

Credit risk related to the Company's two principal Distributors in Saudi Arabia and Kuwait is also mitigated by the Company's, acquisition of Export Development Canada ("EDC") export credit insurance, wherein 90% of insured losses, up to policy maximums, are covered against the risk of non-payment caused by a variety of events.

Credit risk, with respect to accounts receivables may also be mitigated due to Wavefront's credit evaluation and cash management processes.

### Foreign currency risk

Wavefront is exposed to currency risks as a significant portion of its revenues are in foreign currencies, primarily US dollars, as a result of the Company's export of its technology and Powerwave tools to foreign jurisdictions of goods produced in Canada or services provided from Canada. Wavefront is also exposed to some limited operational expenses related to Distributors in foreign operations. Therefore, the Company is exposed to fluctuations in exchange rates to the extent that a strengthening Canadian dollar environment will result in a negative impact and a weakening Canadian dollar environment will result in positive impact on our income from operations.

These risks are partially covered by purchases of goods and services in the foreign currency. Wavefront does not use derivative instruments to reduce its exposure to foreign currency risk.

### Fair value of financial instruments

The carrying value of Wavefront's financial instruments approximates their fair value. The estimated fair value approximates the amount for which the financial instruments could currently be exchanged in an arm's length transaction between willing parties who are under no compulsion to act. Certain financial instruments lack an available trading market. Therefore, fair value amounts should not be interpreted as being necessarily realizable in an immediate settlement of the instrument.

## SUPPLEMENTARY INFORMATION

### SUMMARY OF QUARTERLY RESULTS AND LOSS PER SHARE

The following tables sets forth selected data derived from our unaudited condensed consolidated interim financial statements for each of the eight most recently completed quarters. This information should be read in conjunction with the applicable interim unaudited and annual audited financial statements and related notes thereto.



## Management's Discussion and Analysis of Financial Condition and Results of Operations

	2nd Qtr 2021 Feb 28 '21	1st Qtr 2021 Nov 30 '20	4th Qtr 2020 Aug 31 '20	3rd Qtr 2020 May 31 '20
Revenue	\$ 373,118	\$ 445,760	\$ 695,473	\$ 702,259
Net Income (Loss)	\$ (415,839)	\$ (347,520)	\$ 20,773	\$ (16,562)
Basic & diluted income (loss) per share	\$ (0.0047)	\$ (0.0040)	\$ 0.0002	\$ (0.0002)
Common shares outstanding				
Weighted average shares outstanding	87,572,573	87,572,573	87,572,573	87,572,573

	2nd Qtr Feb 29'20	1st Qtr 2020 Nov 30'19	4th Qtr 2019 Aug 31 '19	3rd Qtr 2019 May 31 '19
Revenue	\$ 706,040	\$ 700,685	\$ 960,356	\$ 831,321
Net Loss	\$ (419,612)	\$ (244,782)	\$ (112,539)	\$ (31,180)
Basic & diluted loss per share	\$ (0.0048)	\$ (0.0028)	\$ (0.001)	\$ (0.0004)
Common shares outstanding				
Weighted average shares outstanding	87,572,573	87,572,573	87,540,244	87,529,350

Note 1: All amounts in Canadian dollars except share data

### DESCRIPTION OF SHARE CAPITAL

As at February 29, 2021, Wavefront's share capital consisted of the following:

<b>Common shares</b>	
Authorized:	unlimited
Issued and outstanding:	
Free trading	87,572,573
Convertible into common shares	
Share purchase warrants	4,341,333
Incentive stock options	<u>1,825,000</u>
	<u>6,166,333</u>
Fully diluted share capital:	<u>93,738,906</u>

Subsequent to the reporting period, the Company issued 1,000,000 stock options to the Company's five independent directors, expiring March 1, 2031 with an exercise price of \$0.10 per stock option. The subsequent fully diluted share capital as at April 27, 2021 is 94,738,906.

As at April 27, 2021, Wavefront's number of issued and outstanding shares is 87,572,573.



## Management's Discussion and Analysis of Financial Condition and Results of Operations

### Market for Securities

The common shares of Wavefront Technology Solutions Inc. are listed on the TSX Venture Exchange under the symbol of WEE. The Company's shares also trade on OTCQB Venture Market under the symbol WFTSF.

### Warrants granted during the period

No warrants were granted during the reporting quarter.

### Warrants outstanding

As at February 28, 2021

<b>Date Granted</b>	<b>Expiry Date</b>	<b>Number of Warrants</b>	<b>Exercise Price per Share \$</b>
July 17, 2018	July 17, 2021	628,741	0.45
July 17, 2018	July 17, 2021	<u>3,712,592</u>	0.20
		<u>4,341,333</u>	

During the fiscal year ended August 31, 2020, the Company agreed to the re-pricing and a second extension of the term of certain share purchase warrants ("Warrants") issued on July 17, 2018. The Company agreed to extend the term of the 4,341,333 Warrants one additional year to July 17, 2021, and to decrease the exercise price of 3,712,592 of those Warrants from \$0.45 to \$0.20 per share.

Consistent with the policies of the Exchange, the amended Warrants that are repriced will include an accelerated expiry clause such that their exercise period will be reduced to 30 days if, for any ten consecutive trading days during their unexpired term, the closing trading price of the common shares of the Company exceeds \$0.25 per share.

Also consistent with the policies of the Exchange, the Warrant re-pricing and extension apply to 3,712,592 Warrants of the 4,341,333 Warrants originally issued on July 17, 2018, while the Warrant extension, with no reduction in the original \$0.45 exercise price will, apply to the remaining 628,741 Warrants to investors.

### Options granted during the period

No options were granted during the reporting quarter. However, subsequent to the reporting period, the Company issued 1,000,000 stock options to the Company's five independent directors, expiring March 1, 2031 with an exercise price of \$0.10 per stock option.

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



## Management’s Discussion and Analysis of Financial Condition and Results of Operations

### Options outstanding

As at February 28, 2021

Date Granted	Expiry Date	Number of Incentive Stock Options	Exercise Price per Share \$
August 4, 2016	August 4, 2026	1,750,000	0.28
January 6, 2017	January 6, 2027	75,000	0.35
		1,825,000	

During the first quarter 2021, 100,000 stock options that were forfeited were originally issued to a former Director of the Company with an exercise price of \$0.28.

### CONTROLS AND PROCEDURES

Under National Instrument 52-109 *Certification of Disclosure in Issuers’ Annual and Interim Filings* (“NI 52-109”), the Company, as a “Venture Issuer” files on an annual basis Form 52-109FV1, the “*Certificate of Annual Filings – Venture Issuer Basic Certificate*” (the “**Annual Form**”) which does not include representations relating to the establishment and maintenance of disclosure controls and procedures (“**DC&P**”) and internal controls over financial reporting (“**ICFR**”), as defined in NI 52-109. In particular, the certifying officers filing the Annual Form are not making any representations relating to the establishment and maintenance of:

- i) controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and,
- ii) a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer’s GAAP.

However, the Company’s Management, and its certifying officers on the Certificates are responsible for ensuring that processes are in place to provide them with sufficient knowledge to support the representations they are making in those Certificates. The Certificates do contain representations which confirms that management has established processes, which are in place to provide the certifying officers with sufficient knowledge to support their written representations that they have exercised reasonable diligence that (i) the financial statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of and for the periods presented by the financial statements and that (ii) the financial statements fairly present in all material respects the financial condition, results of operations and cash flows of the Company, as of the date of and for the periods presented by the financial statements.

The Company’s certifying officers of the Certificates are responsible for ensuring that processes are in place to provide them with sufficient knowledge to support the representations they are making in those Certificates. However, the reader should be aware that inherent limitations on the ability of the certifying officers to design and implement, on a cost effective basis, DC&P and ICFR for the Company as defined in NI 52-109, may result in additional risks to the

## Management's Discussion and Analysis of Financial Condition and Results of Operations

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quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation, including this Management Discussion & Analysis.

### FORWARD-LOOKING INFORMATION

*Certain statements contained herein regarding Wavefront and its operations constitute "forward-looking statements" within the meaning of Canadian securities laws and the United States Private Securities Litigation Reform Act of 1995. All statements that are not historical or current facts, including without limitation statements regarding future estimates, plans, objectives, assumptions or expectations or future performance of Wavefront and or any of its subsidiaries, as described in the Management Discussion and Analysis above, are "forward-looking statements". Forward-looking information can be identified by the use of the future tense or other forward-looking words such as "believe", "expect", "anticipate", "intend", "should", "may", "could", "would", "objective" "forecast", "position", "intend" or the negative of those terms or other variations of them or comparable terminology. Examples of such forward-looking information in this document include, but are not limited to statements with respect to the following, each of which is subject to significant risks and uncertainties and is based on a number of assumptions that may prove to be incorrect:*

- *under the heading "Outlook" the outlook for Wavefront's business and its long-term plans, including potential cash payments under the terms of the non-binding Memorandum of Understanding with GDMC, potential growth of sales in the Middle East, South and North America, and the potential necessity for further cost reductions;*
- *under the heading "Liquidity and Capital Resources", Wavefront's beliefs about its working capital position and cash flow break even and its use of cash; and*
- *under the heading "Contractual Commitments", Wavefront's beliefs about working capital sufficiency the potential receipt of payment of certain aged receivables and potential sources of financing.*

*We provide this forward-looking information for Wavefront's business in order to describe the management expectations and targets by which Wavefront measures its success and to assist Wavefront shareholders in understanding Wavefront's financial position as at and for the periods ended on the dates presented in this report. Readers are cautioned that this information may not be appropriate for other purposes. **We caution that such "forward-looking statements" involve known and unknown risks and uncertainties that could cause actual results and future events to differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking information.** Such material factors include fluctuations in the acceptance rates of Wavefront's Powerwave and Primawave Processes, demand for products and services, fluctuations in the market for oil and gas related products and services, the ability of Wavefront to attract and maintain key personnel, technology changes, global political and economic conditions. For a more detailed description of these risks, and of other risks to which Wavefront is subject, please see the "Risks and Uncertainties", "Environmental Risk" and "Financial and Other Instruments" sections in this Management Discussion and Analysis. In determining Wavefront's forward-looking statements, Wavefront considers material factors including assumptions and expectations regarding customer demand and adoption rates for Wavefront's products; commodity prices and interest and foreign exchange rates; and the availability and cost of inputs, labour and services, patent, technology and competitive risk. Many of these factors are beyond Wavefront's control and have effects which are difficult to predict. These material risk factors and material assumptions are not intended to represent a complete list of the factors that could affect Wavefront; please see other factors that are described in further detail in Wavefront's continuous disclosure filings, from time to time, and available on SEDAR at [www.sedar.com](http://www.sedar.com). Investors*



## Management's Discussion and Analysis of Financial Condition and Results of Operations

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*and the public should carefully consider these factors, other uncertainties and potential events, and the inherent uncertainty of forward-looking statements when relying on these statements to make decisions with respect to Wavefront.*

*The forward-looking statements contained herein represent Wavefront's expectations at April 27, 2021, and, accordingly are subject to change after such date. Except as may be required by law, Wavefront does not undertake to update any forward-looking statement, whether written or verbal, that may be made from time to time.*

### **ADDITIONAL INFORMATION**

Additional information regarding Wavefront Technology Solutions Inc. can be found on System for the Electronic Document Analysis and Retrieval ("SEDAR" at [www.sedar.com](http://www.sedar.com)).