

Unaudited Condensed Consolidated Interim Financial Statements of

WAVEFRONT TECHNOLOGY SOLUTIONS INC.

Three and nine months ended May 31, 2022 and 2021

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NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company is disclosing that its auditors have not reviewed the unaudited condensed consolidated interim financial statements for the periods ended May 31, 2022 and 2021.

WAVEFRONT TECHNOLOGY SOLUTIONS INC.
Condensed Consolidated Interim Statements of Financial Position
As at May 31, 2022 and August 31, 2021
(Canadian dollars)
(Unaudited)

	Note	May 31, 2022	August 31, 2021
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		\$ 586,356	\$ 1,201,893
Trade and other receivables		530,242	193,604
Inventories		168,738	52,428
Prepaid expenses and other current assets		98,564	58,855
TOTAL CURRENT ASSETS		1,383,900	1,506,780
NON-CURRENT ASSETS			
Deposits		14,150	14,150
Property, plant and equipment	3	393,553	439,631
Right-of-use assets	4	381,828	459,929
TOTAL ASSETS		\$ 2,173,431	\$ 2,420,490
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Unearned revenue		90,061	78,041
Trade accounts payable and accrued liabilities		905,355	490,985
Lease liabilities	4	102,881	97,248
TOTAL CURRENT LIABILITIES		1,098,297	666,274
NON-CURRENT LIABILITIES			
Other accrued liabilities	4	15,819	20,268
Lease liabilities	4	320,364	398,481
TOTAL LIABILITIES		1,434,480	1,085,023
SHAREHOLDERS' EQUITY			
Share capital	5 b	68,383,516	67,299,083
Warrants	5 c	67,737	467,716
Contributed surplus	5 e	9,688,797	9,463,336
Accumulated other comprehensive income		565,293	565,366
Deficit		(77,966,392)	(76,460,034)
		738,951	1,335,467
		\$ 2,173,431	\$ 2,420,490

Going concern

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

WAVEFRONT TECHNOLOGY SOLUTIONS INC.
Condensed Consolidated Interim Statements of Net Loss
and Comprehensive Loss
Three and nine-month periods ended May 31, 2022 and 2021

(Canadian dollars)

(Unaudited)

		For the three months ended		For the nine months ended	
	Note	May 31, 2022	May 31, 2021	May 31, 2022	May 31, 2021
Revenue		\$ 462,152	\$ 371,281	\$ 1,425,535	\$ 1,190,159
Cost of sales		84,288	13,589	140,923	47,496
Gross Profit		377,864	357,692	1,284,612	1,142,663
General and administrative		668,842	527,642	2,090,304	1,731,814
Sales and marketing		143,053	99,945	495,557	323,793
Amortization and depreciation	3, 4	50,664	60,902	153,532	214,430
Research and development		9,551	32,351	42,460	89,592
Gain on disposal of property, plant and equipment		-	(4,078)	-	(4,078)
Impairment	4	-	59,976	-	59,976
		872,110	776,738	2,781,853	2,415,527
OPERATING LOSS		(494,246)	(419,046)	(1,497,241)	(1,272,864)
OTHER INCOME (EXPENSES)					
Financing costs		(7,271)	(7,121)	(19,493)	(11,815)
Government grants	6	-	89,895	15,269	179,813
Financing income		697	2,266	2,149	15,860
Foreign exchange loss		(1,728)	(19,971)	(7,042)	(28,329)
		(8,302)	65,069	(9,117)	155,529
NET LOSS		(502,548)	(353,977)	(1,506,358)	(1,117,335)
OTHER COMPREHENSIVE INCOME LOSS					
Items that may be reclassified subsequently to net loss					
Translation loss on foreign operations		(839)	(1,503)	(73)	(2,967)
COMPREHENSIVE LOSS		\$ (503,387)	\$ (355,480)	\$ (1,506,431)	\$ (1,120,302)
WEIGHTED AVERAGE NUMBER OF SHARES					
Basic and diluted	7	90,151,704	87,572,573	90,151,704	87,572,573
LOSS PER COMMON SHARE					
Basic and diluted	7	\$ (0.006)	\$ (0.004)	\$ (0.017)	\$ (0.013)

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

WAVEFRONT TECHNOLOGY SOLUTIONS INC.
Condensed Consolidated Interim Statements of Changes in Shareholders' Equity
Three and nine-month periods ended May 31, 2022 and 2021
(Canadian dollars)
(Unaudited)

	Share capital	Warrants	Contributed surplus	Accumulated other comprehensive (loss) income	Deficit	Total
Balance at August 31, 2019	67,299,083	467,716	9,414,471	567,152	(75,085,677)	\$ 2,662,745
Net Loss	-	-	-	-	(1,117,335)	(1,117,335)
Translation loss on foreign operations	-	-	-	(2,967)	-	(2,967)
Recognition of share-based payments	-	-	30,680	-	-	30,680
Balance at May 31, 2021	67,299,083	467,716	9,445,151	564,185	(76,203,012)	1,573,123
Net Loss	-	-	-	-	(257,022)	(257,022)
Translation gain on foreign operations	-	-	-	1,181	-	1,181
Balance at August 31, 2021	67,299,083	467,716	9,463,336	565,366	(76,460,034)	1,335,467
Net Loss	-	-	-	-	(1,506,358)	(1,506,358)
Translation loss on foreign operations	-	-	-	(73)	-	(73)
Exercise of warrants	1,054,806	(370,352)	-	-	-	684,454
Expiry of warrants	29,627	(29,627)	-	-	-	-
Recognition of share-based payments	-	-	225,461	-	-	225,461
Balance at May 31, 2022	\$ 68,383,516	\$ 67,737	\$ 9,688,797	\$ 565,293	\$ (77,966,392)	\$ 738,951

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

WAVEFRONT TECHNOLOGY SOLUTIONS INC.
Condensed Consolidated Statements of Cash Flows
Nine-month periods ended May 31, 2022 and 2021
(Canadian dollars)
(Unaudited)

	<u>Note</u>	<u>May 31,</u> <u>2022</u>	<u>May 31,</u> <u>2021</u>
OPERATING ACTIVITIES			
Net loss		\$ (1,506,358)	\$ (1,117,335)
Changes to net loss not involving cash			
Share-based payments	5 d	225,461	30,680
Amortization and depreciation	3, 4	153,531	214,430
Impairment		1,651	59,976
Gain on disposal of property, plant and equipment		-	(4,078)
Impact of foreign translation		(1,096)	22,555
Interest expense		(19,493)	(11,815)
Changes to working capital			
Change in trade and other payables		409,921	(85,813)
Interest paid		19,493	11,815
Change in unearned revenue		12,020	11,983
Change in deposits		-	-
Change in prepaid expenses		(39,709)	(24,719)
Change in inventory		(116,415)	25,326
Change in trade and other receivables		(336,638)	517,966
Cash used in operating activities		(1,197,632)	(349,029)
FINANCING ACTIVITIES			
Payment for the principal portion of lease liability	4	(72,484)	(65,578)
Net proceeds from share purchase warrant exercise		684,454	-
Cash from (used in) financing activities		611,970	(65,578)
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	3	(30,896)	(59,918)
Proceeds on disposal of property, plant and equipment	3	-	8,450
Cash used in investing activities		(30,896)	(51,468)
Foreign exchange gain (loss) on cash held in foreign currency		1,021	(23,257)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(615,537)	(489,332)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		1,201,893	1,817,671
CASH AND CASH EQUIVALENTS, END OF PERIOD		\$ 586,356	\$ 1,328,339
CASH AND CASH EQUIVALENTS			
Cash denominated in CDN		\$ 452,400	\$ 1,031,808
Cash denominated in USD		105,911	245,635
Foreign currency translation amount		28,045	50,896
CASH AND CASH EQUIVALENTS, END OF PERIOD		\$ 586,356	\$ 1,328,339

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

WAVEFRONT TECHNOLOGY SOLUTIONS INC.
Notes to the Condensed Consolidated Interim Financial Statements
Three and nine months ended May 31, 2022 and 2021
(Canadian dollars)
(Unaudited)

1. NATURE OF OPERATIONS AND CORPORATE INFORMATION

Wavefront Technology Solutions Inc.'s ("Wavefront" or the "Company") is a technology service provider offering the oil and gas industry revolutionary technologies that optimize oil and gas well stimulation, workovers and cleanouts, and applications related to Improved/Enhanced Oil ("IOR/EOR") recovery, marketed under the brand name, "Powerwave™". Wavefront operates in the global marketplace dealing directly with E&P companies, and through a network of international distributors and agents.

The Company is incorporated under the Canada Business Corporations Act. Its shares are listed on the TSX Venture Exchange under the symbol of WEE, and also trades on the OTCQB International under the symbol of WFTSF.

The address of the registered head office of the Company is 5621 – 70 Street NW, Edmonton, Alberta. The Company is domiciled in Canada.

2. STATEMENT OF COMPLIANCE AND GOING CONCERN

a) Statement of compliance

These unaudited condensed consolidated interim financial statements (the "Financial Statements") have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting using accounting policies under International Financial Reporting Standards ("IFRS") for interim financial information. These Financial Statements have been prepared using the same accounting policies and methods of computation as the annual consolidated financial statements for the fiscal year ended August 31, 2021.

These Financial Statements were approved for issue on July 27, 2022.

b) Principles of consolidation

These unaudited condensed consolidated financial statements incorporate the financial statements of the Company and the entity controlled by the Company (its wholly owned subsidiary, Wavefront Technology Solutions USA Inc.). 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. Although the Company is domiciled in Canada, the Company's principal focus is on international operations, and as such revenue generation is mainly outside Canada. Revenues derived in Canada for the three and nine months ended May 31, 2022 and 2021 was \$nil.

The financial statements of the subsidiary are included in the unaudited condensed consolidated financial statements from the date that control commences until the date that control ceases.

WAVEFRONT TECHNOLOGY SOLUTIONS INC.

Notes to the Condensed Consolidated Interim Financial Statements

Three and nine months ended May 31, 2022 and 2021

(Canadian dollars)

(Unaudited)

All subsidiary companies are wholly owned and inter-company transactions, balances, revenues and expenses, and unrealized gains and losses have been eliminated on consolidation.

Unearned revenue, which was included in the contract liability balance at the beginning of the fiscal year, that was recognized in the three and nine months ended May 31, 2022 was \$nil and \$51,137, respectively (2021 - \$nil).

c) Going concern

These Financial Statements were prepared on a going concern basis. The going concern basis of accounting assumes that the Company will continue its operations for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

At May 31, 2022, the Company had yet to achieve profitable operations, had an accumulated deficit of \$77,966,392 (August 31, 2021 - \$76,460,034), and for the nine-month period ended May 31, 2022 had a net loss of \$1,506,358 (May 31, 2021 - \$1,117,335) with cash used in operating activities of \$1,197,632 (May 31, 2021 - \$349,029). It is unclear whether and when the Company can obtain profitability and positive cash flows from operations. These events and conditions form a material uncertainty that may raise significant doubt regarding the Company's ability to continue as a going concern.

The Company currently has a working capital of \$285,603 (August 31, 2021 - \$840,506).

Although the Company has commenced certain expenditure curtailment to reduce monthly cash consumption, the Company, in accordance with its strategic plan, is currently consuming cash resources at a rate in excess of its operational cash inflow. As such, the Company's ability to continue as a going concern is dependent on obtaining additional capital investment, the realization of assets, the further achievement of successful commercialization of its technologies and the improvement of cash flows from operations. Financial Instruments, Note 8, provides a more detailed description of the liquidity risk. During a prior reporting period the Company secured a \$12,000,000 equity facility ("Facility"). However, during the reporting period ended May 31, 2022, the Company had requested a draw against the Facility, which was declined. Draws against the Facility will be subject to acceptance, and there can be no assurance that any future draw(s) against the Facility will be accepted, or that the Facility will not be cancelled, or that the Company will be successful in raising additional capital, realizing assets, discharging liabilities or generating sufficient cash flows from operations to continue as a going concern.

These Financial Statements do not reflect the adjustments that might be necessary to the carrying amount of the reported assets, liabilities, revenues and expenses, and balance sheet classifications used if the Company was unable to continue operations in accordance with this assumption. Such adjustments may be material.

WAVEFRONT TECHNOLOGY SOLUTIONS INC.
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d) New standards issued but not yet adopted

The following are the standards, amendments, and interpretations that the Company reasonably expects to be applicable at a future date and intends to adopt when they become effective. The Company is currently considering the impact of adopting these standards, amendments, and interpretations on its consolidated financial statements and cannot reasonably estimate the effect at this time, unless specifically mentioned below.

- (i) In January 2020, the IASB issued *Classification of Liabilities as Current or Non-current* (Amendments to IAS 1, *First-time Adoption of International Financial Reporting Standards*). The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current. The amendments include clarifying the classification requirements for debt a company might settle by converting it into equity. The amendments are effective for annual reporting periods beginning on or after January 1, 2022, with earlier application permitted.
- (ii) In May 2020, the IASB issued *Onerous Contracts-Cost of Fulfilling a Contract* (Amendments to IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*). The amendments clarify which costs to include in assessing whether a contract is onerous. The amendments are effective January 1, 2022, with earlier application permitted.
- (iii) In February 2021, the IASB issued *Definition of Accounting Estimates* (Amendments to IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*). The amendments define accounting estimates and clarify the distinction between changes in accounting estimates and changes in accounting policies. The amendments are effective for annual reporting periods beginning on or after January 1, 2023, with earlier application permitted.
- (iv) In February 2021, the IASB issued *Disclosure of Accounting Policies* (Amendments to IAS 1, *Presentation of Financial Statements*, and IFRS Practice Statement 2). The amendments provide guidance to help entities disclose the material (previously “significant”) accounting policies. The amendments are effective for annual reporting periods beginning on or after January 1, 2023, with earlier adoption permitted.
- (v) In April 2021, the IFRS Interpretations Committee (“IFRIC”) issued an agenda decision on the treatment of configuration and customization costs associated with cloud computing arrangements where the underlying software is not recognized as an intangible asset. The decision concluded that these costs may be capitalized as a separate intangible asset if they meet both the definition of an intangible asset and the recognition criteria in IAS 38, *Intangible Assets*. When these costs do not qualify for separate recognition as an intangible

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asset and not distinct from the software, these costs are expensed over the term of the software contract as provided.

- (vi) In May 2021, the IASB issued *Deferred Tax related to Assets and Liabilities arising from a Single Transaction* (Amendments to IAS 12, *Income Taxes*). The amendments narrow the scope of the recognition exemption so that companies would be required to recognize deferred tax for transactions that give rise to equal amounts of taxable and deductible temporary differences, such as leases. The amendments are effective for annual reporting periods beginning on or after January 1, 2023, with earlier adoption permitted, applied retroactively.

The Company is currently considering the impact of adopting these standards, amendments, and interpretations on its consolidated financial statements.

3. PROPERTY, PLANT AND EQUIPMENT

As at May 31, 2022	Tools and equipment	Computer, automotive and office equipment	Leasehold improvements	Total
Cost				
Balance at August 31, 2021	\$ 3,308,557	\$ 727,830	\$ 620,807	\$ 4,657,194
Additions	29,052	1,843	-	30,895
Impairment	(7,025)	-	-	(7,025)
Impact of foreign translation	418	305	-	723
Balance at May 31, 2022	3,331,002	729,978	620,807	4,681,787
Accumulated depreciation				
Balance at August 31, 2021	(2,921,424)	(701,796)	(594,343)	(4,217,563)
Depreciation	(65,744)	(5,238)	(4,449)	(75,431)
Impairment	5,479	-	-	5,479
Impact of foreign translation	(426)	(293)	-	(719)
Balance at May 31, 2022	(2,982,115)	(707,327)	(598,792)	(4,288,234)
Net book value				
Balance at May 31, 2022	\$ 348,887	\$ 22,651	\$ 22,015	\$ 393,553

Depreciation expense on property, plant and equipment for the three and nine months ended May 31, 2022 was \$24,630 and \$75,431, respectively (May 31, 2021 - \$33,612 and \$113,534, respectively).

As at May 31, 2022 property, plant and equipment includes tools and equipment under construction, with a recorded value of \$22,890 (August 31, 2021 - \$nil) that was not being depreciated.

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As at May 31, 2022, the Company recorded an impairment expense of \$1,546 related to the specific Powerwave tools that was recorded to costs of goods sold in the Condensed Consolidated Interim Statements of Net Loss and Comprehensive Loss.

In the comparative period the Company recorded an impairment expense of \$1,464 on specific Powerwave tools for the three and nine months ended May 31, 2021. The Company also recorded an impairment expense of \$58,513 against its then sole intangible asset for the three and nine months ended May 31, 2021.

4. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

The Company's leases consist of a lease for its office and warehouse space, and various short-term and/or low value leases for other equipment, such as cellular phones and office equipment.

The Company leases a building for its office and warehouse space in Edmonton, Alberta. In a previous reporting period, the Company entered into a new lease for a period of five years commencing February 1, 2021. The building lease does not include a lease extension option.

The Company reassesses leases when a significant event or a significant change in circumstances within the Company's control has occurred.

	<u>Right-of-use asset</u>	<u>Lease liability</u>
	<u>Building</u>	<u>Total</u>
As at August 31, 2021	\$ 459,929	\$ (495,729)
Additions	-	-
Depreciation	(78,101)	-
Payment	-	72,484
As at May 31, 2022	\$ 381,828	\$ (423,245)

WAVEFRONT TECHNOLOGY SOLUTIONS INC.

Notes to the Condensed Consolidated Interim Financial Statements

Three and nine months ended May 31, 2022 and 2021

(Canadian dollars)

(Unaudited)

<i>Amounts recognized in the condensed consolidated interim statement of net loss and comprehensive loss</i>	Three-months ended May 31, 2022	Nine-months ended May 31, 2022
Depreciation expense on right-of-use asset	\$ 26,034	\$ 52,067
Interest expense on lease liabilities	5,440	17,216
Expense related to variable lease payments not included in the measurement of the lease liability	14,739	44,217
Expense related to leases of low value assets	2,908	10,079
Expense related to leases of short-term leases	-	-
Total	\$ 49,121	\$ 123,579

Variable lease payments include operating and maintenance expenses, property taxes, and other variable costs. The estimated balance of future variable lease payments is estimated at \$216,171. Overall, the variable payments constitute up to 29.9% of the Company's entire lease payments.

<i>Amounts recognized in consolidated statement of cash flows</i>	Nine-months ended May 31, 2022
Cash payments for interest portion of lease liabilities	\$ 11,776
Cash payments for leases not included in measurement of lease liability	44,217
Cash outflows in operating activities	55,993
Cash payments for the principal portion of lease liability	72,484
Cash outflows in financing activities	72,484
Total cash outflows for leases	\$ 128,477

The Company also leases cellular telephone and other equipment with terms of three years or shorter. These leases are generally short-term or for low-value assets that the Company has elected not to recognize in the right-of-use assets and lease liabilities.

5. SHARE CAPITAL

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

a) *Authorized share capital*

Unlimited common shares without par value.

WAVEFRONT TECHNOLOGY SOLUTIONS INC.
Notes to the Condensed Consolidated Interim Financial Statements
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b) Issued common shares

The Company's issued share capital is as follows:

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

		May 31, 2022
	Number	Stated capital
Balance, beginning of period	87,572,573	\$ 67,299,083
Warrants exercised ⁽ⁱ⁾	3,437,592	1,054,806
Expiry of \$0.20 Warrants ⁽ⁱ⁾	-	29,627
Balance, end of period	91,010,165	\$ 68,383,516

- (i) During the prior reporting period ended November 30, 2021, 3,437,592 share purchase warrants exercisable at \$0.20 were exercised into an equal number of common shares, for gross proceeds of \$687,518, with 275,000 share purchase warrants exercisable at \$0.20 expiring unexercised as at November 25, 2021.

c) Share purchase warrants

	Number	Amount	Weighted average exercise price
Balance, August 31, 2021	4,341,333	\$ 467,716	\$ 0.24
Exercises	(3,437,592)	(370,352)	(0.20)
Expiry	(275,000)	(29,627)	(0.20)
Balance, May 31, 2022	628,741	\$ 67,737	\$ 0.45

- (i) As part of the Private Placement in fiscal 2018, subscribers received 4,341,333 Warrants ("Warrants"), with each Warrant being exercisable for one common share of the Company at an exercise price of \$0.45 for a period of 12 months after the closing date, expiring July 17, 2019; provided that, commencing on the date that is four months and one day after the closing of the Offering, if the volume weighted average trading price of a common share on the Exchange is at a price equal to or greater than \$0.65 for a period of more than 20 consecutive trading days.

WAVEFRONT TECHNOLOGY SOLUTIONS INC.

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(Canadian dollars)

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- (ii) During the year ended August 31, 2019, the Company extended the Warrants term by one year, such that their expiry is July 17, 2020. All other terms of the Warrants remained the same.

During the fiscal ended August 31, 2020, the Company elected to further 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. In accordance with TSX Venture Exchange ("TSX-V") policies re-priced insider Warrants were restricted to 10% of the re-priced Warrants; and thus, the remaining 628,741 warrants had no reduction in exercise price.

Consistent with the TSX-V policies, 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.

- (iii) During the fiscal ended August 31, 2021, the Company elected to further extend the term of the 4,341,333 Warrants for one more additional year to July 17, 2022. All other terms of the Warrants remained the same.

- (iv) During the first quarter 2022 (i.e., the period ended November 30, 2021), the Company announced that a Triggering Event had occurred in relation to the 3,712,592 share purchase warrants exercisable at \$0.20, as originally issued by the Company on July 17, 2018. The Triggering Event, resulting from the 10-day closing price of the common shares of the Company, as traded on the TSX Venture Exchange exceeding \$0.20 per common share, and thus, the expiry date of the 3,712,592 share purchase warrants exercisable at \$0.20 was no longer July 17, 2022 but November 25, 2021.

As a result of the Triggering Event, during the reporting period ended November 30, 2021, 3,437,592 share purchase warrants exercisable at \$0.20 were exercised into an equal number of common shares, for net proceeds of \$684,454, with 275,000 share purchase warrants exercisable at \$0.20 expiring unexercised as at November 25, 2021.

- (v) Subsequent to the reporting period, on July 17, 2022, the balance of 628,741 Warrants, exercisable at \$0.45, expired un-exercised.

d) Stock-based compensation plan

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

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(Canadian dollars)
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Movements in stock options during the period

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

			May 31, 2022
			Weighted
			average
			exercise
		Number	price
Outstanding, beginning of period		2,800,000	\$ 0.22
Granted		1,800,000	0.17
Outstanding, end of period		4,600,000	\$ 0.20

Of the 1,800,000 stock options that were issued in the prior reporting quarter ended November 30, 2021, 1,200,000 were issued to Directors and Officers of the Company.

Fair value of stock options granted during the period

The fair value for the compensation costs of stock options issued to both employees and non-employees were calculated using the Black-Scholes option pricing model resulting in an additional charge to general and administrative expense with a corresponding increase in share-based payment reserve.

During the three and nine months ended May 31, 2022, the Company incurred \$54,844 and, \$225,461 respectively (May 31, 2021 - \$30,680) in compensation expense relating to outstanding stock options.

e) Contributed surplus

		May 31, 2022
Balance, beginning of period	\$	9,463,336
Share-based payments		225,461
Balance, end of period	\$	9,688,797

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6. GOVERNMENT ASSISTANCE

In response to the World Health Organization's declared coronavirus ("COVID-19") pandemic, governments have established various programs to assist companies through this period of uncertainty, like the implementation of the Canada Emergency Wage Subsidy ("CEWS") and Canada Emergency Rent Subsidy ("CERS") programs. The Company recorded non-refundable contributions under the CEWS and CERS programs in the comparable periods for three and nine months ended May 31, 2022 of \$nil and \$15,269, respectively (three and nine months ended May 31, 2021 - \$89,895 and \$179,813, respectively), with \$nil included in accounts receivable (August 31, 2021 - \$22,598).

7. LOSS PER SHARE

The weighted average number of common shares outstanding for basic and diluted loss per share is 90,151,704 (May 31, 2021 – 87,572,573).

In determining diluted loss per share, the weighted average number of shares outstanding for the period ended May 31, 2022 excluded 3,585,141 (May 31, 2021 – nil) for stock options and share purchase warrants eligible for exercise where the average market price of the common shares for the year exceeds the exercise price because the result was anti-dilutive in both periods.

8. FINANCIAL INSTRUMENTS

a) Categories of financial instruments

The Company has classified its financial instruments as follows:

	May 31, 2022	August 31, 2021
Financial assets		
Cash and cash equivalents	\$ 586,356	\$ 1,201,893
Trade and other receivables	530,242	193,604
Deposits	14,150	14,150
Financial liabilities		
Unearned revenue	90,061	78,041
Trade accounts payable and accrued liabilities	905,355	490,985

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b) Foreign currency risk

The following table provides an indication of the Company's exposure to changes in the value of the U.S. dollar relative to the Canadian dollar as at and for the periods ended May 31, 2022 and August 31, 2021. 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").

	May 31, 2022 U.S. Dollars	August 31, 2021 U.S. Dollars
Financial assets		
Cash and cash equivalents	\$ 105,911	\$ 263,089
Trade and other receivables	392,622	125,795
Financial liabilities		
Unearned revenue	(90,499)	(71,026)
Trade accounts payable and accrued liabilities	(335,124)	(93,134)
Net statement of financial position exposure	72,910	224,724

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 May 31, 2022 would have impacted the comprehensive net loss by \$3,645 (August 31, 2021 - \$11,236).

c) Credit risk

Assets that subject the Company to credit risk consist primarily of cash and cash equivalents, trade and other receivables, and, if applicable, any indemnifications. The Company applies the simplified approach to trade and other receivables and recognizes a loss allowance provision based on lifetime expected credit losses ("ECLs"). The loss provision is based on the Company's historical collection and loss experience and incorporates forward-looking factors, where appropriate. The loss provision is included in administrative costs in the Financial Statements and is net of any recoveries that were provided for in a prior period.

Trade receivables are included in trade and other receivables on the statements of financial position and consist of the following:

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	May 31, 2022	August 31, 2021
Trade and other receivables		
Current	\$ 261,098	\$ 143,468
Past due but not impaired		
Aged between 31 - 90 days	131,494	19,197
Aged between 91 - 120 days	60,044	31,543
Aged greater than 121 days	82,073	-
Total trade and other receivables	534,708	194,208
Allowance for doubtful accounts	(4,466)	(604)
	\$ 530,242	\$ 193,604

Reconciliation of allowance for doubtful accounts:

	May 31, 2022	August 31, 2021
Balance, beginning of period	\$ 604	\$ 1,761
Increase in allowance	5,568	604
Net of write-offs and recoveries	(1,706)	(1,761)
Balance, end of period	\$ 4,466	\$ 604

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

	May 31, 2022	August 31, 2021
North America	\$ 221,188	\$ 108,728
Middle East	300,074	84,876
Other International	8,980	-
	\$ 530,242	\$ 193,604

d) 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 various

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sources, including cash generated from operations, cash management and by monitoring forecasted cash flows.

The timing of undiscounted cash flows of financial liabilities based on the earliest date, assuming earlier termination does not accelerate such liabilities, on which the Company may be required to pay is outlined below.

	0 to 3 months	4 to 12 months	Year 2	Years 3 to 5	After 5 years
Contractual commitments	\$ 24,004	\$ 11,677	\$ 6,895	\$ 16,887	\$ -
Trade accounts payable and accrued liabilities	550,302	439,182	-	-	-
Commitments and variable lease payments ⁱ	14,739	44,217	58,956	98,260	-
Lease liabilities ⁱ	29,900	91,650	126,533	214,500	-
	<u>\$ 618,945</u>	<u>\$ 586,726</u>	<u>\$ 192,384</u>	<u>\$ 329,647</u>	<u>\$ -</u>

- i) The Company entered into a new lease for a period of five years commencing February 1, 2021. For the balance of the term of the new five-year lease, the total estimated commitments and variable lease payments are estimated to be \$216,171, with the future lease liabilities estimated at \$462,583. The new lease commitments are included in the above table.

Despite the re-opening of many countries, COVID-19 and the various variants continue to have some impact on the Company's access to oil fields. In addition, various end users and / or clients continue to be impacted by supply chain (i.e., acid manufacturing and availability, coiled tubing and rig parts and availability, etc.) issues and operating budget constraints, which have created additional delays in most of the regions in which the Company operates and is impacting revenues, and thus, receivables. Wavefront, however, has not been materially directly impacted by supply chain issues related to Powerwave tool development or deployment. The timeframe to gain access and the resolution of end user or client supply chain issues is currently unknown.

These factors, amongst others, are likely to have a negative impact on the Company's credit and liquidity risks, as well as, maintaining revenues and earnings, cash flows, and Wavefront's financial condition.

9. SEGMENTED INFORMATION

The Company is an oil field service provider and operates with one reportable segment that covers all aspects of the Company's business.

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Wavefront considers the basis on which it is organized, including the economic characteristics and geographic areas, in identifying its reportable segment. The operating segment(s) of the Company is defined as a component(s) of the Company for which separate financial information is available and is evaluated regularly by the chief operating decision maker in allocating resources and assessing performance. The chief operating decision maker of the Company is the President and Chief Executive Officer. The Company has one group of similar products due to having a similar underlying technology, class of customers, and economic characteristics.

Geographic information

	Revenue three months ended		Revenue nine months ended		Assets	
	May 31, 2022	May 31, 2021	May 31, 2022	May 31, 2021	May 31, 2022	August 31, 2021
North America	\$ 181,940	\$ 35,420	\$ 287,481	\$ 130,729	\$ 1,733,291	\$ 2,164,339
Middle East	251,992	335,861	1,040,899	1,041,080	426,485	243,420
Other International	28,220	-	97,155	18,350	13,655	12,731
	<u>\$ 462,152</u>	<u>\$ 371,281</u>	<u>\$ 1,425,535</u>	<u>\$ 1,190,159</u>	<u>\$ 2,173,431</u>	<u>\$ 2,420,490</u>

For its geographic segments, the Company has allocated assets based on their physical location and revenue based on the location of the customer. Of the revenues recognized for the three months ended May 31, 2022 in North America, revenues of \$181,940 (May 31, 2021 - \$35,420) were derived in the United States; whereas of the revenues recognized in the Middle East, revenues of \$113,552 (May 31, 2021 - \$276,668) were derived from Kuwait, and revenues of \$111,167 (May 31, 2021 - \$nil) were derived from the United Arab Emirates.

Of the revenues recognized for the nine months ended May 31, 2022 in the Middle East, revenues of \$685,397 (May 31, 2021 - \$854,340) were derived from Kuwait, and revenues of \$150,311 (May 31, 2021 - \$nil) were derived from the United Arab Emirates; whereas, revenues recognized in North America, \$287,481 (May 31, 2021 - \$130,729) were derived from the United States.

Significant customers

Sales in the three months ended May 31, 2022 from the top three customers amounted to \$139,119, \$113,552, and \$64,320, which represented 30.1%, 24.6% and 13.9%, respectively, of total revenue. Sales in the three months ended May 31, 2021, from the top three customers amounted to \$276,668, \$34,386, and \$24,807, which represented 74.5%, 9.3% and 6.7%, respectively, of total revenue.

Sales in the nine months ended May 31, 2022 from the top three customers amounted to \$685,397, \$164,911, and \$122,301, which represented 48.1%, 11.6% and 8.6% respectively, of total revenue. Sales in the nine months ended May 31, 2021, from the top three customers amounted to \$854,340, \$99,592, and \$63,265, which represented 71.8%, 8.4% and 5.3%, respectively, of total revenues.