Consolidated Financial Statements of

WAVEFRONT TECHNOLOGY SOLUTIONS INC.

August 31, 2018 and 2017

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Deloitte LLP
700, 850 2 Street SW
Calgary, AB T2P 0R8
Canada

Tel: 403-267-1700
Fax: 587-774-5379
www.deloitte.ca

Independent Auditor's Report
To the Shareholders of
Wavefront Technology Solutions Inc.

We have audited the accompanying consolidated financial statements of Wavefront Technology Solutions Inc., which comprise the consolidated statements of financial position as at August 31, 2018 and August 31, 2017, and the consolidated statements of net loss and comprehensive loss, consolidated statements of changes in shareholders' equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

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

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

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

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

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Wavefront Technology Solutions Inc. as at August 31, 2018 and August 31, 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of matter
Without modifying our opinion, we draw attention to Note 2 to the consolidated financial statements, which indicates that the Company had yet to achieve profitable operations, had an accumulated deficit of $73,992,005 and for the fiscal year ended August 31, 2018, had a net increase in cash and cash equivalents of $143,079, and cash used in operations of $1,176,064. These conditions, along with the other matters described in Note 2 to the consolidated financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern.

Deloitte LLP.

Chartered Professional Accountants
December 30, 2018
Edmonton, Alberta

WAVEFRONT TECHNOLOGY SOLUTIONS INC.
Consolidated Statements of Financial Position
As at August 31, 2018 and 2017
(Canadian dollars)

	Note		August 31, 2018		August 31, 2017
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	7	$	2,587,328	$	2,444,249
Trade and other receivables	14, 18		702,406		1,125,930
Inventories	8		76,623		170,133
Prepaid expenses and other current assets			258,491		33,269
			3,624,848		3,773,581
NON-CURRENT ASSETS					
Deposits			44,338		24,150
Property, plant and equipment	8		956,748		1,438,753
		$	4,625,934	$	5,236,484
LIABILITIES AND SHAREHOLDERS' EQUITY					
CURRENT LIABILITIES					
Trade accounts payable and accrued liabilities		$	929,111	$	1,086,753
SHAREHOLDERS' EQUITY					
Share capital	9 b		67,216,013		66,438,909
Warrants	9 c		484,481		-
Contributed surplus	9 e		9,421,036		9,363,732
Accumulated other comprehensive income			567,298		548,324
Deficit			(73,992,005)		(72,201,234)
			3,696,823		4,149,731
		$	4,625,934	$	5,236,484
Going concern	2				
Subsequent events	18				

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

APPROVED BY THE BOARD

"Brett Davidson" (signed) Director

"Mark Bernard" (signed) Director

WAVEFRONT TECHNOLOGY SOLUTIONS INC.
Consolidated Statements of Net Loss and Comprehensive Loss
Years ended August 31, 2018 and 2017
(Canadian dollars)

	Note	August 31, 2018	August 31, 2017
Revenue		$ 3,215,029	$ 2,167,540
Cost of sales	10	574,216	681,042
Gross Profit		2,640,813	1,486,498
Loss on disposal of property, plant and equipment, and inventory	8	258,017	-
General and administrative		3,163,909	3,906,553
Sales and marketing		647,141	787,371
Amortization and depreciation	8	269,580	379,061
Research and development		118,057	152,026
	10	4,456,704	5,225,011
OPERATING LOSS		(1,815,891)	(3,738,513)
OTHER (EXPENSES) INCOME			
Financing costs		(6,757)	(18,553)
Financing income	10	31,877	46,972
		25,120	28,419
NET LOSS		(1,790,771)	(3,710,094)
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified subsequently to net loss			
Translation gain (loss) on foreign operations		18,974	(25,785)
COMPREHENSIVE LOSS		$ (1,771,797)	$ (3,735,879)
WEIGHTED AVERAGE NUMBER OF SHARES			
Basic and diluted	12	83,530,011	82,956,240
LOSS PER COMMON SHARE			
Basic and diluted	12	$ (0.021)	$ (0.044)

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

WAVEFRONT TECHNOLOGY SOLUTIONS INC.
Consolidated Statements of Changes in Shareholders' Equity
Years ended August 31, 2018 and 2017
(Canadian dollars)

	Share capital	Warrants	Contributed surplus	Accumulated other comprehensive (loss) income	Deficit	Total
Balance at August 31, 2016	66,438,909	-	9,025,103	574,109	(68,491,140)	$ 7,546,981
Net Loss	-	-	-	-	(3,710,094)	(3,710,094)
Translation gain on foreign operations	-	-	-	(25,785)	-	(25,785)
Recognition of shared-based payments	-	-	338,629	-	-	338,629
Balance at August 31, 2017	66,438,909	-	9,363,732	548,324	(72,201,234)	4,149,731
Net Loss	-	-	-	-	(1,790,771)	(1,790,771)
Translation loss on foreign operations	-	-	-	18,974	-	18,974
Private Placement	737,187	484,481	-			1,221,668
Exercise of options	39,917	-	(16,417)			23,500
Recognition of shared-based payments	-	-	73,721	-	-	73,721
Balance at August 31, 2018	$ 67,216,013	$ 484,481	$ 9,421,036	$ 567,298	$ (73,992,005)	$ 3,696,823

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

WAVEFRONT TECHNOLOGY SOLUTIONS INC.
Consolidated Statements of Cash Flows
Years ended August 31, 2018 and 2017
(Canadian dollars)

	Note	August 31, 2018	August 31, 2017
OPERATING ACTIVITIES			
Net loss		$ (1,790,771)	$ (3,710,094)
Amortization and depreciation	8	269,580	379,061
Loss on disposal of property, plant and equipment, and inventory		264,096	32,520
Share-based payments	9 d	73,721	338,629
Interest expense		6,757	1,715
Impact of foreign translation		(2,208)	(18,808)
Changes to loss not including cash			
Change in prepaid expenses		(225,222)	10,269
Change in trade and other payables		(157,641)	477,651
Change in deposits		(20,188)	1,209
Change in inventory		(10,955)	71,746
Interest paid		(6,757)	(1,715)
Change in trade and other receivables		423,524	(681,639)
Cash used in operating activities		(1,176,064)	(3,099,456)
Financing Activities			
Proceeds from exercise of options	9 e	23,500	-
Net proceeds from private placement	9 b	1,221,668	-
Cash from financing activities		1,245,168	-
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	8	(19,977)	(65,585)
Proceeds on disposal of property, plant and equipment	8	75,000	37,393
Cash from (used in) investing activities		55,023	(28,192)
Foreign exchange gain (loss) on cash held in foreign currency		18,952	(4,098)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		143,079	(3,131,746)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		2,444,249	5,575,995
CASH AND CASH EQUIVALENTS, END OF PERIOD	18	$ 2,587,328	$ 2,444,249
CASH AND CASH EQUIVALENTS			
Cash denominated in CDN		$ 1,890,789	$ 2,227,558
Cash denominated in USD		533,542	54,040
Foreign currency translation amount		162,997	162,651
CASH AND CASH EQUIVALENTS, END OF PERIOD		$ 2,587,328	$ 2,444,249

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

1. NATURE OF OPERATIONS AND CORPORATE INFORMATION

Wavefront Technology Solutions Inc.'s ("Wavefront" or the "Company") is a global leader in the advancement of dynamic fluid injection technology for oil and gas well stimulation and Improved/Enhanced Oil ("IOR/EOR") Recovery. Wavefront's core technology, marketed under the brand name, "Powerwave™", has proven to increase oil and gas production rates; decrease oil production decline rates; and, reduce well stimulation chemical costs while also increasing post-stimulation production or injection sustainability rates for exploration and production companies ("E&P's"). Wavefront operates in the global market place dealing directly with E&P's and through an international network of distributors and agents.

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

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

2. BASIS OF PRESENTATION

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These consolidated financial statements were authorized by the Board of Directors on December 30, 2018.

Going concern

These consolidated 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 August 31, 2018, the Company had yet to achieve profitable operations, had an accumulated deficit of $73,992,005 (August 31, 2017 - $72,201,234) and for the fiscal year ended August 31, 2018, had a net increase in cash and cash equivalents of $143,079 (August 31, 2017 – a net decrease of $3,131,746), and and cash used in operations of $1,176,064 (August 31, 2017 – $3,099,456). Whether and when the Company can obtain profitability and positive cash flows from operations for an entire fiscal year is uncertain. The fiscal year's lack of profitable operations may cast significant doubt on the Company's ability to continue as a going concern.

The Company currently has a working capital of $2,695,737 (August 31, 2017 - $2,686,828).

The ability to continue as a going concern is dependent on the Company's continued ability to generate quarterly positive cash flows from operations in the future in order to meet liabilities as they come due and enable the Company to continue operations. The ability to continue as a going concern may be adversely impacted by technology adoption rates, sales cycles, the addition or loss of customers, sales per customer, commodity prices and international trade relations. The outcome of such matters cannot be predicted.

The audited consolidated financial statements do not include any adjustments which could be significant to the amounts and classification of assets and liabilities that may be necessary should the Company be unable to generate profitable operations in the future. Failure to continue as a going concern would require the restatement of assets, liabilities and shareholders' deficiency on a liquidation basis, which could differ materially from the going concern basis.

Functional and presentation currency

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

Basis of measurement

The consolidated financial statements were prepared on a going concern basis, under the historical cost basis except for share based payments, and the following material items in the statements of financial position:

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

Principles of consolidation

These consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its wholly owned subsidiaries). Control is achieved when the Company has the power to, directly or indirectly, govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are presently exercisable or convertible are taken into account.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.
All subsidiary companies are wholly-owned and inter-company transactions, balances, revenues and expenses and unrealized gains and losses have been eliminated on consolidation.

Foreign currency translation

Translation of foreign entities

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

Translation of transactions and balances

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

Cash and cash equivalents

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

Inventories

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

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

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

During the year ended August 31, 2018 inventories consumed and included in cost of sales amounted to $223,628 (August 31, 2017 - $184,965). In the 2018 the Company reclassified $220,409 (2017 - $236,196) of raw materials and consumable inventory to tools and equipment (Note 8).

Property, plant and equipment

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

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

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

Leasehold improvements	Straight line over the term of the lease
Tools and equipment	20% to 100% declining balance
Computer equipment	30% declining balance
Automotive equipment	30% declining balance
Office equipment	20% declining balance

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

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

Revenue recognition

<u>Sale of goods</u>

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

Rendering of services

Revenue from a contract to provide services is recognized in the accounting period in which the services are rendered, in accordance with the substance of the relevant agreement. Revenues are only recognized where the amount can be measured reliably, it is probable that the economic benefit associated with the transaction will flow to the Company and the costs incurred from the transaction and costs to complete can be measured reliably.

Share-based payments

The Company has an equity-settled share-based payment plan for certain employees and others providing similar services as described in Note 9(d). The fair value of a stock option is calculated at the date of grant and is expensed over the vesting period of those stock options with a corresponding entry to share-based payment reserve. The Company uses the Black-Scholes model to calculate the fair value of stock options issued, which requires certain assumptions be made at the time the stock options are awarded, including the expected life of the stock option, the expected number of granted stock options that will vest and the expected future volatility of the stock. The fair value of stock options is only re-measured if there is a modification to the terms of the stock options, such as a change in exercise price or legal life.

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

Employee benefits

The costs of all short-term employee benefits are measured on an undiscounted basis and are expensed during the period in which the employee renders the related service. A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Provisions

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

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

Income taxes

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

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

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

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

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

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

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

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

Leases

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

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

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

Share capital

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

Segment reporting

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

Income (loss) per share

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

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

Financial instruments

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

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

Financial assets

An instrument is classified as fair value through profit or loss (“FVTPL”) if it is held-for-trading or is designated as such upon initial recognition. A financial asset is classified as held-for-trading if acquired principally for the purpose of selling in the short-term or if so designated by management. Financial instruments included in this category are initially recognized at fair value and transactions costs are taken directly to earnings along with gains and losses arising from changes in fair value. As at August 31, 2018 and 2017 the Company had no financial assets recorded at FVTPL.

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

Financial assets are classified as held-to-maturity (“HTM”) if the Company has the positive intent and the ability to hold the asset to maturity. Held-to-maturity financial assets are initially recognized at fair value plus any transaction costs directly attributable to the asset. As at August 31, 2018 and 2017, the Company has no financial assets recorded as HTM.

Financial liabilities

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

Fair value hierarchy

The Company values instruments carried at fair value using quoted market prices, where available. Quoted market prices represent a Level 1 valuation. When quoted market prices are not available, the Company maximizes the use of observable inputs within valuation models. When all significant inputs are observable, the valuation is classified as Level 2. Valuations that require the significant use of unobservable inputs are considered Level 3. The Company has no financial assets recorded at fair value at August 31, 2018 and 2017.

Impairment of financial assets

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

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

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

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

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

Impairment of non-financial assets

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

The recoverable amount of an asset or cash-generating unit ("CGU") is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU.

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

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

Reclassification of comparative figures

Certain comparative amounts in the consolidated statement of net income and comprehensive loss have been reclassified to conform with the current year's presentation. The reclassification resulted in $114,751 being reclassified from general and administrative expense to sales and marketing expenses. Since the amounts are reclassifications within operating activities in the consolidated statement of net income and comprehensive loss, the reclassification did not have any effect on the consolidated statement of financial position or statement of cash flows.

4. NEW ACCOUNTING STANDARDS ISSUED BUT NOT YET ADOPTED

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective and determined that the following may have an impact on the Company:

<u>Financial Instruments: Classification of Measurement ("IFRS 9")</u>

IFRS 9, Financial Instruments, will replace IAS 39, Financial Instruments: Recognition and Measurement, and introduces new requirements for the classification and measurement of financial assets and financial liabilities, including derecognition. IFRS 9 requires that all financial assets be subsequently measured at amortized cost or fair value. For financial liabilities designated at fair value through profit and loss, the new standard also requires that changes in fair value attributable to a financial liability's credit risk be presented in other comprehensive income, not in profit or loss. Guidance on accounting for debt modifications has also been amended. As well, IFRS 9 includes a single expected-loss impairment model and a reformed approach to hedge accounting.

This standard is effective for annual periods beginning on or after January 1, 2018, and may be adopted using a full retrospective or modified retrospective approach.

Classification and measurement: The financial assets held by the Company include:

- Cash and cash equivalents, currently measured at FVTPL, that meet the conditions for classification at amortized cost, and
- Trade and other receivables and unbilled revenue, currently measured at amortized cost, that meet the conditions for classification at amortized cost under IFRS 9

The Company does not expect the new guidance to affect the measurement of these financial assets. There will be no impact on the Company's accounting for financial liabilities because the new requirements affect only the accounting for financial liabilities that are designated at FVTPL, and the Company does not have any such liabilities.

Hedging: The new hedge accounting guidance will not impact the Company on adoption because there were no designated hedges at August 31, 2018.

Impairment of financial assets: The new impairment model requires the recognition of impairment provisions based on expected credit losses ("ECL") rather than incurred credit losses. It applies to financial assets classified at amortized cost, debt instruments measured through fair value through other comprehensive income ("FVOCI"), contract assets under IFRS 15, lease receivables, loan commitments, and certain financial guarantee contracts. Based on the assessments undertaken to date, the Company expects the impact on credit losses to be insignificant.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Company's disclosures about its financial instruments.

Revenue from Contracts with Customers ("IFRS 15")

In April 2016, the IASB issued amendments to IFRS 15 "Revenue from Contracts with Customers". The amendments clarified three aspects of the standard (identifying performance obligations, principal versus agent considerations and licensing) and provided some transition relief for modified contracts and completed contracts. IFRS 15 applies to all revenue contracts with customers and provides a model for the recognition and measurement of the sale of some non-financial assets such as property, plant, and equipment, and intangible assets. It sets out a five-step model for revenue recognition and applies to all industries. The core principle is that revenue should be recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration that the entity expects to be entitled to in exchange for those goods or services. IFRS 15 requires numerous disclosures, such as the disaggregation of total revenue, disclosures about performance obligations, changes in contract asset and liability account balances, and key judgments and estimates.

The new standard is effective for annual periods beginning on or after January 1, 2018 (same effective date as IFRS 15 itself), with earlier application permitted. The standard may be applied retrospectively or using a modified retrospective approach. The Company has completed the review of the new standard and has concluded that there is no material impact to the timing or recognition of or measurement of revenue under IFRS 15. The Company will adopt the additional disclosure requirements.

Leases ("IFRS 16")

IFRS 16, *Leases*, was issued by the IASB in January 2016, and will replace International Accounting Standards ("IAS") 17, "Leases". IFRS 16 will bring most leases on-balance sheet for leases under a single model, eliminating the distinction between operating and finance leases. Lessor accounting remains largely unchanged and the distinction between operating and finance leases is retained. The new standard effective for annual periods beginning on or after January 1, 2019, with early application permitted if IFRS 15 has also been applied. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

Impairment of non-financial assets

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

The recoverable amounts of cash-generating units have been determined based on the value-in-use calculations or fair value less costs to disposal.

The Company assessed impairment indicators for the Powerwave CGU as at August 31, 2018 and determined that no indicators of impairment were present.

Valuation of equity compensation benefits

Management classifies its share-based payment scheme as an equity-settled scheme based on the assessment of its role and that of the employees and brokerage firm in the transaction. The critical assumptions as used in the valuation model are detailed in Note 9.

Lease classification

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

Valuation of accounts receivable

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

Useful lives of long-lived assets

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

(Canadian dollars)

6. IMPAIRMENT

As at August 31, 2018 and during the year then ended, the Company concluded that that no indicators of impairment were present.

7. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	August 31, 2018	August 31, 2017
Cash	$ 811,032	$ 270,598
Unrestricted investments	1,776,296	2,173,651
	$ 2,587,328	$ 2,444,249

Unrestricted investments consist of high interest savings accounts with annualized interest rate ranging between 1.85% and 1.95%%.

8. PROPERTY, PLANT AND EQUIPMENT

Year ended August 31, 2018	Tools and equipment	Computer, automotive and office equipment	Leasehold improvements	Total
Cost				
Balance at August 31, 2017	$ 3,965,659	$ 875,095	$ 862,875	$ 5,703,629
Additions	19,977	-	-	19,977
Reclassifications	(15,787)	-	-	(15,787)
Disposals	(439,415)	(92,104)	(271,728)	(803,247)
Impact of foreign translation	8,995	9,516	-	18,511
Balance at August 31, 2018	3,539,429	792,507	591,147	4,923,083
Accumulated depreciation and impairment				
Balance at August 31, 2017	(2,978,842)	(770,710)	(515,324)	(4,264,876)
Additions	(157,773)	(29,369)	(82,438)	(269,580)
Disposals	356,729	72,802	154,872	584,403
Impact of foreign translation	(8,250)	(8,032)	-	(16,282)
Balance at August 31, 2018	(2,788,136)	(735,309)	(442,890)	(3,966,335)
Net book value				
Balance at August 31, 2018	$ 751,293	$ 57,198	$ 148,257	$ 956,748

(Canadian dollars)

Year ended August 31, 2017	Tools and equipment	Computer, automotive and office equipment	Leasehold improvements	Total
Cost				
Balance at August 31, 2016	$ 4,409,213	$ 934,990	$ 862,536	$ 6,206,739
Additions	63,945	1,301	339	65,585
Reclassifications	(147,911)	-	-	(147,911)
Disposals	(349,572)	(50,416)	-	(399,988)
Impact of foreign translation	(10,016)	(10,780)	-	(20,796)
Balance at August 31, 2017	3,965,659	875,095	862,875	5,703,629
Accumulated depreciation and impairment				
Balance at August 31, 2016	(3,130,299)	(788,247)	(404,633)	(4,323,179)
Additions	(228,028)	(40,342)	(110,691)	(379,061)
Reclassifications	84,362	-	-	84,362
Disposals	286,113	48,971	-	335,084
Impact of foreign translation	9,010	8,908	-	17,918
Balance at August 31, 2017	(2,978,842)	(770,710)	(515,324)	(4,264,876)
Net book value				
Balance at August 31, 2017	$ 986,817	$ 104,385	$ 347,551	$ 1,438,753

Amortization expense for the year ended August 31, 2018 was $269,580 (August 31, 2017 - $379,061).

As at August 31, 2018, property, plant and equipment includes tools and equipment under construction of $282,780 (August 31, 2017 - $312,236), which is not being depreciated.

As at August 31, 2018 the Company reviewed the raw materials and consumable inventory it had on hand and determined that not all of this inventory would be consumed with the Company's next operating cycle. Based on this analysis, the Company reclassified $220,409 (August 31, 2017 - $236,196) of raw material and consumable inventory to equipment under construction within the tools and equipment asset segment. In the prior year, the Company also reclassified assets with net book value of $50,607 of assets to inventory for sale.

Effective February 28, 2018, the Company disposed of the balance of tools in its tubing pump and bailer CGU at various locations along with certain other assets, and the purchaser was assigned and assumed the Lloydminster field office lease (together the "Disposition").

(Canadian dollars)

Summary of Disposition	Tools and equipment	Automotive and office equipment	Leasehold improvements	Total
Cost	407,714	73,803	271,728	753,245
Accumulated depreciation	(311,308)	(58,512)	(154,872)	(524,693)
Net book value	96,406	15,291	116,856	228,552
Inventory				104,465
Proceeds				(75,000)
Net loss				(258,017)

9. SHARE CAPITAL

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

a) Authorized share capital

Unlimited common shares without par value

b) Issued common shares

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

	August 31, 2018		August 31, 2017	
	Number	Stated capital	Number	Stated capital
Balance, beginning of year	82,956,240	$ 66,438,909	82,956,240	$ 66,438,909
Share issuances(i)	4,341,333	737,187		
Stock option exercises(ii)	75,000	39,917	-	-
Balance, end of year	87,372,573	$ 67,216,013	82,956,240	$ 66,438,909

(i) Effective July 17, 2018, the Company closed a non-brokered private placement ("Private Placement") of $1,302,400 through the issuance of 4,341,333 units of the Company at a price of $0.30 per unit (the "Unit"). Each Unit consisted of one common share in the share capital of the Company, and one common share purchase warrant (a "Warrant") (Note 9 (c) (i)).

In connection with the private placement, the Company incurred share issuance costs of $80,732, of which $48,716 was allocated to share capital and $32,016 was allocated to Warrants.

Included in the share issuance costs were finder's fees to qualified, non-related, parties of 7% cash totaling $46,683 paid on portions of the private placement. In addition, the qualified, non-related parties, received 155,610 broker warrants ("Broker Warrants") (Note 9 (c) (ii)).

(Canadian dollars)

(ii) Of the 75,000 stock options exercise, 25,000 of stock options exercised were by a Director of the Company at a price of $0.38 for gross proceeds of $9,500.

(iii) Subsequent to the fiscal year end, 100,000 stock options exercisable at $0.12 and 100,000 stock options exercisable at $0.315 were exercised by a Director of the Corporation for gross proceeds of $43,500.

c) Share purchase warrants

	Number		Amount		Weighted average exercise price
Balance, August 31, 2017	-	$	-	$	-
Private placement warrants issued(i)	4,341,333		467,716		0.45
Broker warrants issued(ii)	155,610		16,765		0.45
Balance, August 31, 2018	4,496,943	$	484,481	$	0.45

(i) As part of the Private Placement (Note 9 (b) (i)), subscribers received 4,341,333 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; 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.

In connection with the Private Placement, share issuance costs of $30,908 were allocated to the Warrants (Note 9 (b) (i)).

(ii) As part of the Private Placement (Note 9 (b) (i)), the qualified, non-related, parties received 155,610 Broker Warrants on a portion of the Private Placement, 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; 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.

In connection with the Private Placement, share issuance costs of $1,108 were allocated to the Broker Warrants (Note 9 (b) (i)).

The fair value of $516,497 for the Warrants and the Broker Warrants were calculated using the Black-Scholes option pricing model. The following assumptions were used in the calculation:

(Canadian dollars)

Inputs into the model

		Weighted Average August 31, 2018
Share price at date of grant	$	0.40
Exercise price	$	0.45
Risk-free rate		
(based on 1 year Government of Canada bond)		1.91%
Expected volatility		82.53%
Dividend rate		0%
Expected life		1 year
Weighted average value of Warrant granted during the year	$	0.11

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 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 in equal tranches at three month intervals over a period of eighteen months.

<u>Movements in stock options during the year</u>

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

	August 31, 2018			August 31, 2017		
	Number		Weighted average exercise price	Number		Weighted average exercise price
Outstanding, beginning of year	4,325,000	$	0.27	4,295,000	$	0.27
Granted	200,000		0.46	75,000		0.35
Exercised	(75,000)		0.31	-		-
Forfeited	(25,000)		0.28	-		-
Expired	(525,000)		0.38	(45,000)		0.66
Outstanding, end of year	3,900,000	$	0.26	4,325,000	$	0.27

(Canadian dollars)

Fair value of stock options granted during the period

The fair value for the compensation costs of stock options issued to both employees and non-employees were calculated using the Black-Scholes option pricing model resulting in an additional charge to general and administrative expense with a corresponding increase in contributed surplus, assuming the following weighted average assumptions:

Inputs into the model

	Weighted Average August 31, 2018	Weighted Average August 31, 2017
Share price at date of grant	$ 0.46	$ 0.35
Exercise price	$ 0.46	$ 0.35
Risk-free rate		
(based on 5 year Government of Canada bond)	1.99%	0.95%
Expected volatility	127.55%	121.46%
Dividend rate	0%	0%
Expected life	4.22 years	3.78 years
Weighted average value of options granted during the year	$ 0.38	$ 0.27

Stock options outstanding at the end of the year

The table below represents the amount of stock options outstanding at August 31, 2018:

Awards Outstanding			Awards Exercisable		
Options outstanding	Remaining contractual life in years	Exercise price	Options exercisable	Remaining contractual life in years	Exercise price
900,000	1.54	$ 0.12	900,000	1.54	$ 0.12
1,900,000	7.93	0.28	1,900,000	7.93	0.28
825,000	0.48	0.315	825,000	0.48	0.315
75,000	8.35	0.35	75,000	8.35	0.35
200,000	9.60	0.46	33,333	9.61	0.46
3,900,000	4.97	$ 0.261	3,733,333	4.76	$ 0.252

During the year ended August 31, 2018, the Company incurred $73,721 (August 31, 2017 - $338,629) in compensation expense relating to outstanding stock options.

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

(Canadian dollars)

e) Contributed Surplus

	August 31, 2018	August 31, 2017
Balance, beginning of year	$ 9,363,732	$ 9,025,103
Share-based payment	73,721	338,629
Stock option exercises	(16,417)	-
Balance, end of year	$ 9,421,036	$ 9,363,732

10. EXPENSES BY NATURE

	August 31, 2018	August 31, 2017
Wages, wage expenses and benefits	$ 1,894,317	$ 2,147,858
Office expenses	625,233	739,505
Bad debts	417,230	64,705
Travel, accommodations and meals	382,150	379,185
Professional fees	311,972	921,436
Consultants	308,558	508,149
Loss on disposition of property, plant and equipment, and inventory	258,017	3,456
Public company & listing fees	175,891	160,587
Repairs, maintenance and shop supplies	137,217	111,373
Vehicle	87,041	131,493
Share based payments	73,721	338,629
Materials and related costs	61,123	10,074
Marketing, promotions and trade shows	28,740	10,540
Miscellaneous	130	2
	$ 4,761,340	$ 5,526,992

Compensation of key management personnel of the Company

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

	August 31, 2018	August 31, 2017
Wages, and other short-term employment benefits	$ 836,109	$ 770,013
Directors' fees	97,000	102,769
Share-based payments	51,993	282,301
	$ 985,102	$ 1,155,083

(Canadian dollars)

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

Financing Income

Financing income includes the following selected information:

	August 31, 2018	August 31, 2017
Interest income	$ 20,794	$ 46,972
Foreign exchange gain	11,083	-
	$ 31,877	$ 46,972

11. INCOME TAXES

	2018	2017
Current income tax expense	$ -	$ -
Deferred income tax expense	-	-
	$ -	$ -

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

	2018	2017
Loss before income tax	$ (1,790,771)	$ (3,710,094)
Expected income tax recovery at statutory income tax rate	(481,538)	(998,757)
Adjusted for the following:		
Tax rate differences	207,926	(93,286)
Stock-based compensation	19,824	91,159
Re-measurement of deferred tax - substantively enacted rates	2,192,240	(7,956)
Expiry of non-capital losses	-	-
Valuation allowances	(1,294,791)	1,219,016
Adjustments in respect of income tax of previous periods	(646,224)	(215,071)
Non-deductible and other items	2,563	4,895
Net deferred income tax asset	$ -	$ -

The Company’s substantially enacted Canadian statutory tax rate is approximately 26.89% (2017 – 26.92%).

(Canadian dollars)

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

	2018	2017
Deferred income tax asset		
Non-capital losses	$ 4,681	$ 15,879
Other	-	-
Deferred income tax asset	4,681	15,879
Deferred income tax liabilities		
Property, plant and equipment	(4,681)	(15,879)
Other	-	-
Deferred income tax liability	(4,681)	(15,879)
Net future income tax asset	**$ -**	**$ -**

Deferred income tax assets are recognized for loss carry-forwards and other deductible temporary differences to the extent that the realization of the related tax benefit through future taxable profits is probable. The Company did not recognize deferred income tax assets of $17,237,691 (2017 - $18,536,022) in respect of tax losses and other deductible temporary differences amounting to $64,409,627 (2017 - $62,358,746) that can be carried forward against future taxable income.

Included in these deductible temporary differences are federal and Alberta scientific research and experimental development ("SR&ED") pool expenditures amounting to $3,547,898 (2017 - $3,547,989) that can be carried forward to use against future federal and Alberta net income for tax purposes. These SR&ED pool expenditures do not expire. The Company has filed returns in support of SR&ED expenditures of $nil for the year-ended August 31, 2018. The Company has up to 18 months within its fiscal year end to file any SR&ED claim.

The Company did not recognize the benefits of non-refundable SR&ED tax credits ("ITCs") amounting to $844,208 (2017 - $844,208). These ITCs can be carried forward against future federal income tax payable.

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

(Canadian dollars)

	U.S. federal net-operating loss carry-forward U.S. $	Canadian federal non-capital loss carry-forward CAD $	Canadian federal SR&ED (ITCs) CAD $
2019	$ -	$ -	$ 3,903
2021	-	-	4,552
2022	-	-	13,786
2023	-	-	4,493
2024	-	-	2,134
2026	-	830,601	-
2027	591,172	861,336	50,490
2028	1,405,291	1,901,084	172,790
2029	1,439,261	2,586,521	168,446
2030	1,361,878	3,453,864	139,977
2031	532,281	261,542	117,573
2032	2,521,604	3,337,918	166,064
2033	-	1,985,569	-
2034	-	3,620,011	-
2035	874,645	-	-
2036	50,995	3,420,628	-
2037	-	5,948,578	-
2038	347,251	1,718,805	-
	$ 9,124,378	$ 29,926,457	$ 844,208

12. LOSS PER SHARE

The weighted average number of common shares outstanding for basic and diluted loss per share is 83,530,011 (August 31, 2017 - 82,956,240).

In determining diluted loss per share, the weighted average number of shares outstanding for the year ended August 31, 2018 excluded 286,738 (August 31, 2017 – 482,950) for stock options eligible for exercise where the average market price of the common shares for the year exceeds the exercise price because the result was anti-dilutive in both periods.

13. CAPITAL MANAGEMENT

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

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

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

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

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

In the management of capital, the Company includes the components of shareholders' equity comprised of share capital, contributed surplus and warrant reserve, and accumulated deficit to provide capital of $3,696,823 as at August 31, 2018 (August 31, 2017 - $4,149,731).

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

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

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

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

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

14. FINANCIAL INSTRUMENTS

a) Categories of financial instruments

The Company has classified its financial instruments as follows:

		August 31, 2018		August 31, 2017
Financial assets				
Cash and cash equivalents	$	2,587,328	$	2,444,249
Trade and other receivables		702,406		1,125,930
Deposits		44,338		24,150
Financial liabilities				
Trade accounts payable and accrued liabilities		929,111		1,086,753

b) Financial risk management

The Company, through its financial assets and liabilities, has exposure to the following risks from its use of financial instruments: credit risk, foreign currency risk, and liquidity risk. An analysis of these risks as at August 31, 2018, is provided below.

(i) Foreign currency risk

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

The tables that follow provide an indication of the Company's exposure to changes in the value of the U.S. dollar relative to the Canadian dollar as at and for the year ended August 31, 2018. The analysis is based on financial assets and liabilities denominated in U.S. dollars at the statement of financial position date ("statement of financial position exposure"), and U.S. dollar denominated revenue and operating expenses during the year ("operating exposure").

Statement of financial position exposure		U.S. dollars
As at August 31, 2018		
Cash and cash equivalents	$	533,542
Trade and other receivables		465,625
Trade accounts payable and accrued liabilities		(218,173)
Net statement of financial position exposure	$	780,994

(Canadian dollars)

Statement of financial position exposure	U.S. dollars
As at August 31, 2017	
Cash and cash equivalents	$ 172,855
Trade and other receivables	717,193
Trade accounts payable and accrued liabilities	(760,405)
Net statement of financial position exposure	$ 129,643

Based on the Company's foreign currency exposure, as noted above, with other variables unchanged, a 5% change in the Canadian dollar against the US dollar as at August 31, 2018 would have impacted on comprehensive net loss by $39,050 (August 31, 2017 - $6,482).

(ii) Credit risk

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

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

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

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

The provision for doubtful accounts has been included in administrative costs in the consolidated statements of net loss and is net of any recoveries that were provided for in a prior period.

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

(Canadian dollars)

	August 31, 2018	August 31, 2017
Trade and other receivables		
Current	$ 177,882	$ 298,602
Past due but not impaired		
Aged between 31 - 90 days	217,103	394,348
Aged between 91 - 120 days	212,559	26,754
Aged greater than 121 days	536,056	419,232
Total trade	1,143,600	1,138,936
Allowance for doubtful accounts	(441,194)	(13,006)
	$ 702,406	$ 1,125,930

Reconciliation of allowance for doubtful accounts:

	August 31, 2018	August 31, 2017
Balance, beginning of year	$ 13,006	$ 4,127
Increase in allowance	21,848	104,183
Net of write-offs and recoveries	407,356	(95,222)
Impact of foreign exchange	(1,016)	(82)
Balance, end of year	$ 441,194	$ 13,006

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

	August 31, 2018	August 31, 2017
North America	$ 178,792	$ 228,761
Middle East	397,651	524,558
Other International	125,963	372,611
	$ 702,406	$ 1,125,930

The Company had $748,615 of trade receivables (2017 – $445,986) which were outstanding greater than 90 days, and of that total, $729,187 (or 97.4%) was concentrated in three customer accounts. Subsequent to the reporting period, the Company received payments totalling $254,050 from two of the top three customer accounts over 90 days. The Company also provided for write-off on one customer in the amount of $431,842 with a foreign exchange differential of $9,352.

(Canadian dollars)

The remaining balance of $33,943 is from one customer that the Company considers to be credit-worthy with no concerns presently regarding collectability of this account.

(iii) Liquidity risk

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

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

The following table details the Company's remaining contractual maturity for its financial liabilities as at August 31, 2018. The table has been prepared based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay.

	0 to 3 months	4 to 12 months	Year 2	Years 3 to 5	After 5 years
Trade accounts payable and accrued liabilities	$ 243,922	$ 685,189	$ -	$ -	$ -
Commitments[1]	101,175	252,836	215,776	89,907	-
	$ 345,097	$ 938,025	$ 215,776	$ 89,907	$ -

Note 1: See Note 15, Operating Leases, below.

Based on Management's assessment of its financial position and liquidity profile at August 31, 2018, the Company will be able to satisfy its obligations as they come due.

c) Fair values

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

The Company has no financial assets recorded at fair value at August 31, 2018 or 2017.

(Canadian dollars)

15. COMMITMENTS AND GUARANTEES

Operating leases

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

	Property[1]	Plant, equipment, automotive and other	Total
Next year	$ 344,983	$ 9,028	$ 354,011
Within two to five years	305,683	-	305,683
Thereafter	-	-	-
	$ 650,666	$ 9,028	$ 659,694

Note 1: Included in the contractual commitments are future commitments in base rental lease payments related to the Lloydminster office and warehouse. In connection with the Disposition (Note 8, above), the Lloydminster office and warehouse lease was fully assigned to the purchaser. Excluding the base rental lease payments related to the Lloydminster office and warehouse the total payments related to property due within one year would total $214,533, and due within two to five years would total $305,683.

Guarantees

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

16. RELATED PARTY TRANSACTIONS

Expense transaction

The Company entered into a Consulting Agreement with a director of the Company to provide certain services for a monthly fee of US $5,000 per month. During the year, the Company recorded $76,670 (August 31, 2017 - $79,239) in consulting expense, with $nil (August 31, 2017 - $nil) included in accounts payable.

17. SEGMENTED INFORMATION AND SIGNIFICANT CUSTOMERS

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

(Canadian dollars)

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

Geographic information

	Revenue		Assets	
	August 31, 2018	August 31, 2017	August 31, 2018	August 31, 2017
North America	$ 516,489	$ 1,189,389	$ 3,673,999	$ 4,709,523
Middle East	2,329,054	487,291	777,957	363,719
Other International	369,486	490,860	173,978	163,242
	$ 3,215,029	$ 2,167,540	$ 4,625,934	$ 5,236,484

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

Significant customers

During the year ended August 31, 2018, the Company recorded revenue from 25 customers (year ended August 31, 2017 - 33 customers). Sales in the year ended August 31, 2018 from the top three customers amounted to $1,200,924, $868,609 and $259,520 which represented 37.4%, 27.1% and 8.1% respectively, of total revenue. Sales in the year ended August 31, 2017 from the top three customers amounted to $700,081, $327,693 and $209,433 which represented 32.3%, 15.1% and 9.7% respectively, of total revenue.

18. SUBSEQUENT EVENTS

Subsequent to the year end, the Company collected $768,598 of trade receivables, of which $277,884 which were outstanding greater than 90 days.