

**Wavefront Energy and
Environmental Services Inc.**

Consolidated Financial Statements
August 31, 2008 and 2007

December 19, 2008

Auditors' Report

To the Shareholders of Wavefront Energy and Environmental Services Inc.

We have audited the consolidated balance sheets of **Wavefront Energy and Environmental Services Inc.** as at August 31, 2008 and 2007 and the consolidated statements of loss, comprehensive loss and deficit and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at August 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

Wavefront Energy and Environmental Services Inc.

Consolidated Balance Sheets

As at August 31, 2008 and 2007

	2008 \$	2007 \$
Assets		
Current assets		
Cash and cash equivalents	22,435,719	5,430,949
Accounts receivable	758,180	902,294
Prepaid expenses	36,303	24,971
Inventory	86,339	80,946
	<u>23,316,541</u>	6,439,160
Deposits	62,136	61,806
Property, plant and equipment (notes 6, 7 and 21)	4,991,092	6,384,578
Intangible assets (note 8)	2,570,096	2,213,209
Goodwill (note 5)	988,862	1,421,001
	<u>31,928,727</u>	16,519,754
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	1,068,559	1,275,854
Current portion of amounts due to shareholders (note 9)	137,985	151,637
Current portion of obligations under capital leases (note 10)	24,049	30,081
	<u>1,230,593</u>	1,457,572
Due to shareholders (note 9)	73,469	227,456
Obligations under capital leases (note 10)	-	73,831
Asset retirement obligation (note 11)	174,562	74,890
	<u>1,478,624</u>	1,833,749
Shareholders' Equity		
Share capital (note 14)	49,319,704	26,911,271
Contributed surplus (note 14)	2,642,913	2,342,069
Deficit	(21,512,514)	(14,567,335)
	<u>30,450,103</u>	14,686,005
	<u>31,928,727</u>	16,519,754

Approved by the Board of Directors

(Signed) "Brett Davidson"

Director

(Signed) "Walter Stelmaschuk"

Director

Wavefront Energy and Environmental Services Inc.

Consolidated Statements of Loss, Comprehensive Loss and Deficit

For the years ended August 31, 2008 and 2007

	2008 \$	2007 \$
Revenue		
Service revenue and royalties	1,043,207	993,080
Production revenue and operator fees, net of taxes and royalties	216,832	192,395
Interest and other	492,523	351,803
	<u>1,752,562</u>	<u>1,537,278</u>
Expenses		
General and administrative expenses	3,434,953	2,908,009
Write-down of oilfield property, plant and equipment, and non-participation amounts due	2,095,242	160,641
Direct costs	734,451	337,862
Selling, marketing and travel	639,706	427,565
Amortization, depreciation, depletion and accretion expenses	603,041	216,162
Research and development	603,000	72,672
Stock-based compensation	395,142	1,340,358
Listing and public company fees	248,228	195,466
Write-down of intangible assets	50,661	-
Interest expense	43,914	9,402
Write-down of inventory	-	38,002
Gain on disposal of property, plant and equipment	(9,354)	(14,653)
Foreign exchange (gain) loss	(141,243)	195,693
	<u>8,697,741</u>	<u>5,887,179</u>
Net loss and comprehensive loss for the year	(6,945,179)	(4,349,901)
Deficit – Beginning of year	(14,567,335)	(10,217,434)
Deficit – End of year	(21,512,514)	(14,567,335)
Loss per common share (note 15)		
Basic and diluted	<u>(0.11)</u>	<u>(0.09)</u>

Wavefront Energy and Environmental Services Inc.

Consolidated Statements of Cash Flows

For the years ended August 31, 2008 and 2007

	2008 \$	2007 \$
Cash provided from (used in)		
Operating activities		
Net loss for the year	(6,945,179)	(4,349,901)
Items not affecting cash		
Amortization, depreciation, depletion and accretion expenses	603,041	216,162
Stock-based compensation (note 14)	395,142	1,340,358
Write-down of oilfield property, plant and equipment, and non-participation amounts due	2,095,242	160,641
Write-down of intangible assets	50,661	-
Write-down of inventory	-	38,002
Gain on disposal of property, plant and equipment	(9,354)	(14,653)
	(3,810,447)	(2,609,391)
Net change in non-cash working capital items (note 16)	451,576	(560,700)
	(3,358,871)	(3,170,091)
Financing activities		
Proceeds from private placement (net of share issuance costs)	12,805,050	-
Proceeds from warrants exercised	9,141,704	-
Proceeds from options exercised	367,382	26,326
Repayment of amounts due to shareholders	(167,639)	(75,819)
Repayment of obligations under capital leases	(79,863)	(15,737)
	22,066,634	(65,230)
Investing activities		
Purchase of property, plant and equipment	(1,289,768)	(2,755,004)
Intangible costs	(504,888)	(2,413,154)
Business acquisition (note 5)	-	(600,000)
Proceeds on disposal of property, plant and equipment	91,663	23,113
	(1,702,993)	(5,745,045)
Increase (decrease) in cash and cash equivalents	17,004,770	(8,980,366)
Cash and cash equivalents – Beginning of year	5,430,949	14,411,315
Cash and cash equivalents – End of year	22,435,719	5,430,949
Supplementary information		
Interest paid	47,583	9,190

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1 Description of business

Wavefront Energy and Environmental Services Inc. (the "Corporation") is incorporated under the Canada Business Corporations Act. The Corporation's principal business activities involve the licensing and utilization of the Corporation's patented process for the enhancement and improvement of oil recovery and oil well stimulation (Powerwave™), and the optimization of groundwater remediation (Primawave™) approaches. In the oil sector the Corporation's strategy is to leverage its intellectual property through licenses of the technology to service providers, provide site licenses to oil producers and to obtain over-riding royalty payments in-kind for site licenses. In the environmental sector the Corporation's strategy is to provide site licenses to service providers, consultants, and stakeholders involved in site specific groundwater clean-up.

2 Accounting policies

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and include the accounts of the Corporation and its wholly owned subsidiaries and its proportionate share of assets, liabilities, revenues, expenses and cash flows of the mineral property working interests in which it participates (notes 6 and 7). All inter-company balances and transactions have been eliminated. These consolidated financial statements include the following significant accounting policies:

a) Measurement uncertainty

The preparation of financial statements, in conformity with Canadian GAAP, requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Significant estimates include: valuation of non-participation amounts due and impairment amounts related to the oil property, plant and equipment; the allowance for doubtful accounts; provision for warranty expense; determination of percentage of completion for the purposes of revenue recognition; useful lives of property, plant and equipment and stock option valuation. Actual results could differ from those estimates.

b) 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, highly liquid, Bankers Acceptances with interest rates ranging from 2.92% to 4.75%. The Corporation maintains revolving operating lines of credit that are included in cash and cash equivalents, as they fluctuate regularly between being overdrawn and positive.

c) Translation of foreign currencies

Transactions in foreign currencies are translated into Canadian dollars at rates of exchange at the time of such transactions. Foreign operations are considered financially and operationally integrated and are translated into Canadian dollars using the temporal method of translation. Accordingly, monetary assets and liabilities are translated at current rates of exchange. Non-monetary assets and liabilities are translated at historical exchange rates. Revenue and expenses denominated in a foreign currency are translated at the

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monthly average exchange rate (except for amortization which is translated at historical exchange rates). Gains and losses resulting from the translation adjustments are included in income.

d) Revenue recognition

Revenue is recognized when persuasive evidence of an arrangement exists, products or services have been delivered to and accepted by third party customers, the price to the buyer is fixed or determinable and collection is reasonably assured. Specific revenue recognition policies are as follows:

- i) Revenue from oilfield services is recognized when the underlying services are provided. Revenue from the sale of rental tools is recognized when the equipment is delivered and accepted by third party customers.
- ii) Licensing royalties and technology fees are recognized on a percentage of completion basis as the underlying contracts are for a set time period. Percentage of completion is determined by relating the amount of time a system has been operating to the total contracted amount of time the system will be operating. Any projected loss is recognized immediately.
- iii) Revenue associated with the production and sale of crude oil owned by the Corporation is recognized in the same period as when the title passes to the external party.

e) Warranty expense

Under certain rates and service contracts a provision for potential warranty expenses is provided for at the time of sale, based on warranty terms and prior claims experience.

f) Property, plant and equipment

Property, plant and equipment are recorded at cost less accumulated depreciation. Depreciation is provided over the useful lives of the assets. Depreciation has been calculated using the following annual rates and methods:

Oilfield property, plant and equipment	Units of production
Equipment	20% declining balance
Computer equipment	30% declining balance
Computer software	100% declining balance
Automotive equipment	30% declining balance
Office furniture and fixtures	20% declining balance

The Corporation evaluates the carrying value of property, plant and equipment whenever events or changes in circumstances indicate that the carrying value may not be recoverable, and recognizes an impairment charge when it is probable that estimated future non-discounted cash flows of the underlying assets will be less than the carrying value of the assets. Where there is impairment, the Corporation measures the loss as the amount by which the carrying amount exceeds fair value.

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g) Oilfield property, plant and equipment

The Corporation follows the full-cost method of accounting for its oil and gas property operations as determined by the Canadian Institute of Chartered Accountants (“CICA”), Accounting Guideline 16. Under this method, all costs associated with the acquisition of, the exploration for and the development of oil and gas reserves are capitalized. Costs include lease acquisition costs, geological and geophysical expenses, costs of drilling both producing and non-producing wells, production facilities and asset retirement costs. Proceeds from the sale of properties are applied against capitalized costs, without any gain or loss being realized, unless such sale would alter the rate of depletion or depreciation by more than 20%.

Depletion of oil and gas properties, plant and production equipment is provided using the unit-of-production method based upon estimated proved oil and gas reserves as determined by management and independent engineers. The cost of significant undeveloped properties are excluded from costs subject to depletion until it is determined whether or not proved reserves are attributable to the properties or impairment has occurred. Estimated future costs to be incurred in developing proved reserves are included in costs subject to depletion.

The Corporation’s policy is to apply an impairment test (“ceiling test”) to determine if capitalized costs are not recoverable and are greater than the fair value. Capitalized costs are not recoverable if they exceed estimated undiscounted cash flows from future production of proved reserves plus the cost (net of impairment) of unproved properties. Cash inflows and costs are estimated using reserves data determined by independent engineers. Costs are based on expected future production and other costs and include abandonment and site restoration costs. An impairment loss is measured as the amount by which capitalized costs exceed fair value of proved and probable reserves, plus the costs (net of impairment) of unproved properties.

h) Asset retirement obligations

The Corporation recognizes the fair value of estimated asset retirement obligations on the consolidated balance sheet when a reasonable estimate of fair value can be made. Asset retirement obligations include those for which a company faces a legal obligation to retire tangible long-lived assets such as well sites, pipeline and facilities. Increases in the asset retirement obligations resulting from the passage of time are recorded as accretion to the asset retirement obligations in the consolidated statement of loss and deficit. Actual expenditures incurred are charged against the accumulated obligations.

The asset retirement cost, equal to the estimated fair value of the retirement obligations, is capitalized as part of the cost of the related long-lived assets. Asset retirement costs are amortized using the same methods as the underlying asset.

i) Goodwill

Goodwill represents the excess of the purchase price of a business acquisition over the fair value of the underlying net assets at the date of acquisition. Goodwill arising from the acquisition is not amortized and is tested for impairment annually, or more frequently if events or changes in circumstances indicate the net asset might be impaired. Impairment is tested by comparing the carrying amount of the reporting unit,

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including goodwill, with its fair value. Fair value is determined using the discounted, estimated future operating cash flows of the reporting unit. When the fair value of the reporting unit exceeds its carrying value, goodwill of the reporting unit is not considered to be impaired. When the carrying value of the reporting unit exceeds its fair value, the implied fair value of the reporting unit's goodwill, determined in the same manner as the value of goodwill is determined in a business acquisition, is compared with its carrying amount to measure the amount of the impairment loss, if any.

j) Intangible assets

Intangible assets acquired individually or as part of a group of other assets are initially recognized at and measured at cost. Amortization is provided over the useful lives of the assets. Amortization has been calculated using the following annual rates and methods:

Net over riding royalty rights	Units of production
Fully-paid up license	Straight-line basis over 15 years
Patents	Straight-line basis over 10 years
Incorporation costs	Straight-line basis over 10 years

The Corporation regularly evaluates the net carrying value of finite life intangible assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Any impairment in the carrying value is charged to expense in the year that the impairment has been determined.

k) Inventory

Inventories, which consist primarily of pump and valve assemblies, tubing, packer cups, balls, collar guards, pressure fittings, accumulators and feed through subs, are valued at the lower of cost, determined on a first-in, first-out basis, and net realizable value.

l) Research and development costs

Research costs are expensed as incurred and significant development costs are capitalized once the Corporation has determined that commercialization criteria concerning the product or process have been met. Amortization of these costs is over their estimated useful lives commencing with the successful commercial production or use of the product or process. On an on-going basis, management reviews the unamortized balance to ensure that the deferred development costs continue to satisfy the criteria for deferral and amortization.

As at August 31, 2008 and 2007, no development costs have been capitalized with the exception of development costs related to oilfield property, plant and equipment as described in 2(g).

m) Government assistance

Government assistance related to property, plant and equipment used for research and development is credited against the cost of the related capital asset. All other assistance is credited against the related expenses as incurred.

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n) Income taxes

Income taxes are accounted for using the liability method of income tax allocation. Under the liability method, income tax assets and liabilities are recorded to recognize future income tax inflows and outflows arising from the settlement or recovery of assets and liabilities at their carrying values.

Income tax assets are also recognized for the benefits from tax losses, provided those benefits are more likely than not to be realized. Future income tax assets and liabilities are determined based on the tax laws and rates that are anticipated to apply in the period of realization.

o) Investment tax credits

Investment tax credits are earned on scientific research and development expenditures. Investment tax credits related to current expenses are included in the determination of net income. Investment tax credits related to the acquisition of assets are deducted from the related assets with any amortization calculated on the net amount. Investment tax credits are accrued when the Corporation has made the qualifying expenditures provided there is reasonable assurance that the credits will be realized.

p) Stock-based compensation plan

The Corporation has a stock-based compensation plan, which is described in note 14. The fair value of the common share purchase option is calculated at the date of grant and is expensed over the vesting period of those options. The Corporation uses the Black-Sholes model to calculate the fair value of stock options issued, which requires certain assumptions be made at the time the options are awarded, including the expected life of the option, the expected number of granted options that will vest and the expected future volatility of the stock.

Any consideration paid by option or warrant holders for the purchase of stock together with any amount previously recognized in contributed surplus are credited to share capital. If plan entitlements are repurchased from the holder, the consideration paid is charged to retained earnings.

q) Loss per share

Basic loss per share is calculated using the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated on the basis of the weighted average number of common shares outstanding during the period plus the additional common shares that would have been outstanding if potentially dilutive common shares had been issued using the treasury stock method.

3 Changes in Accounting Policies

Effective September 1, 2007 the Corporation adopted the recommendations of CICA Handbook Section 3855, Financial Instruments – Recognition and Measurement, Section 3865, Hedges, Section 1530, Comprehensive Income, Section 3251, Equity and Section 3861, Financial Instruments – Disclosure and Presentation. The application of these new standards did not have a significant effect on the Corporation's financial position or results of operations in the current period presented.

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Financial assets and financial liabilities

Prior to the adoption of the new standards, all of the Corporation's financial assets and financial liabilities were accounted for on an accrual basis at their carrying amount, net of any adjustments for other-than temporary impairment.

Under the new standards, financial assets and financial liabilities are initially recognized 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.

Held-for-trading

Financial assets and financial liabilities that are purchased and incurred with the intention of generating profits in the near term are classified as held-for-trading. An entity may also designate any financial instrument upon initial recognition as held-for-trading. These instruments are measured at fair value with changes in fair value recognized on the statement of operations.

Available-for-sale

Financial assets, classified as available-for-sale will be measured at fair value with changes in fair value recorded in other comprehensive income. The fair value of a financial instrument on initial recognition is normally the transaction price. Subsequent to initial recognition, fair values for financial assets are determined by bid prices quoted in active markets. Securities that are classified as available-for-sale and do not have a readily available market value are recorded at cost. Available-for-sale securities are written down to fair value through other comprehensive income whenever it is necessary to reflect other-than-temporary impairment. Gains and losses realized on disposal of available-for-sale securities, which are calculated on an average cost basis, are recognized in other income (expenses).

Held-to-maturity

Securities that have a fixed maturity date, where the Corporation intends and has the ability to hold to maturity, are classified as held-to-maturity and measured at amortized cost using the effective interest rate method.

Loans, receivables and other financial liabilities

Loans, receivables and other financial liabilities are measured at amortized cost using the effective interest rate method.

The Corporation has made the following classifications:

	<u>Classification</u>	<u>Measurement</u>
<u>Financial assets</u>		
Cash and cash equivalents	Held-for-trading	Fair value
Accounts receivable	Loans, receivables and other financial liabilities	Amortized cost

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Financial liabilities

Accounts payable and accrued liabilities	Loans, receivables and other financial liabilities	Amortized cost
Due to shareholders	Loans, receivables and other financial liabilities	Amortized cost
Asset retirement obligation	Loans, receivables and other financial liabilities	Amortized cost
Obligations under capital lease	Loans, receivables and other financial liabilities	Amortized cost

Derivatives and hedge accounting

Embedded derivatives

Derivatives may be embedded in other financial instruments (host instruments). Prior to the adoption of the new standards, such embedded derivatives were not accounted for separately from the host instrument. Under the new standards, embedded derivatives are treated as separate derivatives when their economic characteristics and risks are not clearly and closely related to those of the host instrument and the terms of the embedded derivatives are measured at fair value with subsequent changes recognized in income. In accordance with CICA Handbook Section 3855, the Corporation conducted a search for embedded derivatives in all contractual arrangements, and did not identify any embedded features that require separate presentation from the related host contract.

Hedge accounting

Under the previous standards, derivatives that met the requirements for hedge accounting were generally accounted for on an accrual basis. Under the new standards, all derivatives are recorded at fair value and are recorded in prepaid expenses and other assets or accounts payable and accrued liabilities.

Comprehensive income

Comprehensive income (loss) is the change in shareholders' equity, which results from transactions and events from sources other than the Corporation's shareholders. As at the adoption date, and for the year ended August 31, 2008, the Corporation does not have any items that should be presented as other comprehensive income (loss). Therefore, the net loss for the period is equivalent to the comprehensive loss for the period.

Accounting changes

Effective September 1, 2007, the Corporation adopted the CICA Handbook Section 1506, "Accounting Changes." This section establishes criteria for changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates, and the correction of errors. The disclosure is to include, on an interim and annual basis, a description and the impact on the Corporation of any new primary source of GAAP that has been issued but is not yet effective. This new standard did not have a material effect on our financial position or results of operations.

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4 Future Accounting Changes

General standards of financial statements:

The CICA issued revisions to Handbook Section 1400 “General Standards of Financial Statement Presentation”. The revisions establish the requirement for management to make an assessment of the Corporation’s ability to continue as a going concern and to disclose any material uncertainties related to events or conditions that may cast significant doubt upon the entity’s ability to continue as a going concern. This revised standard is not expected to have a material effect on our financial position or results of operations. This standard applies to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008.

Financial Instruments

The CICA issued new Handbook Sections 3862 “Financial Instruments – Disclosures” and 3863 “Financial Instruments – Presentation”. These sections replace Section 3861 “Financial Instruments – Disclosures and Presentation”. Section 3862 requires entities to provide disclosures in their financial statements that enable users to evaluate the significance of financial instruments on the entity’s financial position and its performance and the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and how the entity manages those risks. Section 3863 establishes standards for presentation of financial instruments and nonfinancial derivatives. It deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equities, the classification of related interest, dividends, losses and gains, and circumstances in which financial assets and liabilities are offset. These new standards are not expected to have a material effect on our financial position or results of operations. These standards apply to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007.

Capital disclosures

In November 2006, the CICA issued the new Handbook Section 1535, “Capital Disclosures,” effective for annual and interim periods beginning on or after October 1, 2007. This section establishes standards for disclosing information about a Corporation’s capital and how it is managed in order that a user of the financial statements may evaluate the Corporation’s objectives, policies, and processes for managing capital. This new standard is not expected to have a material effect on our financial position or results of operations.

Goodwill and Intangible Assets

The CICA issued revised Handbook Section 3064, “Goodwill and Intangible Assets”, which will replace the exiting standard. The revised standard addresses the requirement for recognition, measurement, presentation and disclosure of goodwill and intangible assets. These standards apply to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2008.

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International financial reporting standards

The CICA plans to converge Canadian GAAP for public companies with International Financial Reporting Standards (“IFRS”) over a transition period that is expected to end in 2011. The impact of the transition to IFRS on the consolidated financial statements has not yet been determined.

5 Business acquisition

Effective March 1, 2007, the Corporation acquired (the “Acquisition”) all of the issued and outstanding shares of Top Gun Sand Pumps & Rentals Ltd. (“Top Gun”), a privately-held Saskatchewan company that provides specialized pumping equipment and services for use in heavy oil wells. Total consideration for the Acquisition was \$1,200,000 (the “Purchase Price”). Of the total Purchase Price, the Corporation paid \$542,250 cash, issued 600,000 common shares in the capital of the Corporation valued at \$1.00 per share based on the average quoted market price at the date of the Acquisition and repaid notes payable in the amount of \$57,750.

The Acquisition was accounted for using the purchase method and these financial statements include results of operations of the acquired enterprise from the date of acquisition. The fair values ascribed to the assets and liabilities are as follows:

	\$
Current assets	511,752
Non-current assets	<u>515,326</u>
Total assets acquired	<u>1,027,078</u>
Current liabilities	
Bank indebtedness	204,466
Other current liabilities	<u>269,601</u>
	474,067
Non-current liabilities	
Lease obligations	122,067
Amounts due to shareholders	<u>219,806</u>
Total liabilities assumed	<u>815,940</u>
Net assets acquired	211,138
Goodwill	<u>988,862</u>
Purchase price	<u>1,200,000</u>

During the fiscal year the Corporation revised its estimates associated with the purchase price allocation for the Top Gun Acquisition. The finalization of the purchase price allocation included the assignment of \$375,161 to property, plant and equipment which Top Gun had previously expensed. The property, plant and equipment consists mainly of rental (i.e., pumping equipment for use in heavy oil wells) and shop equipment, and is now

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being amortized consistently with the Corporation's other property plant and equipment. Any sale of rental equipment is recognized as a gain or loss on the disposition of property, plant and equipment. The change in goodwill is reflected in the equipment and technology reporting segment and the Canadian geographic reporting segment affecting net loss for the year, segment assets and total assets (Note 17).

In addition to the above revision to plant and equipment, and to be consistent with Handbook Section 3855, Financial Instruments – Recognition and Measurement, the Corporation revised the carrying value of the non-interest bearing Shareholder notes, discounting the principal outstanding by \$57,068, such that the Corporation is accruing interest at 8.5% on the Shareholder notes payable.

6 Property, plant and equipment

	2008		
	Cost	Accumulated depreciation	Net
	\$	\$	\$
Oilfield property, plant and equipment (note 7)	1,120,666	-	1,120,666
Non-participation amounts due (note 7)	1,085,773	-	1,085,773
Equipment	3,094,768	497,165	2,597,603
Computer equipment	227,713	140,010	87,703
Computer software	274,911	231,006	43,905
Automotive equipment	58,191	27,633	30,558
Office furniture and fixtures	68,821	43,937	24,884
	<u>5,930,843</u>	<u>939,751</u>	<u>4,991,092</u>
			2007
	Cost	Accumulated depreciation	Net
	\$	\$	\$
Oilfield property, plant and equipment (note 7)	1,966,213	-	1,966,213
Non-participation amounts due (note 7)	2,040,896	-	2,040,896
Equipment	2,298,389	265,496	2,032,893
Computer equipment	208,126	107,436	100,690
Computer software	170,091	72,519	97,572
Automotive equipment	184,595	68,948	115,647
Office furniture and fixtures	68,821	38,154	30,667
	<u>6,937,131</u>	<u>552,553</u>	<u>6,384,578</u>

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Property, plant and equipment includes oilfield property, plant and equipment of \$1,120,666 (2007 - \$1,966,213) related to unproven properties and therefore not subject to depreciation and depletion, and equipment under construction of \$1,334,942 (2007 - \$1,710,408), which is not being depreciated. Property, plant and equipment also include assets under capital leases with a cost of \$56,232 (2007 - \$168,140) and a net book value of \$29,392 (2007 - \$109,860) (note 10).

Depreciation expense for the year ended August 31, 2008 was \$470,541 (2007 - \$183,548), including depreciation relating to equipment under capital leases of \$17,970 (2007 - \$12,207).

During the fiscal year the Corporation decided to cease further development of Rogers County, so in accordance with the CICA recommendations for impairment for unproved properties under full cost accounting guidelines, the Corporation realized a write-down of its Rogers County oilfield property, plant and equipment and non-participation amounts due by \$2,095,242. The fair value was determined based on estimated present value of future cash flows calculated using internal production estimates and historical average prices per barrel of oil. The write-down is reflected in the oil and gas properties reporting segment and the US geographic reporting segment affecting net loss for the year, segment assets and total assets (Note 17). The calculated amounts to be written-down, and the resulting carrying value of the Rogers County assets, may not be indicative of the actual values. Additionally, given the volatility in the financial and commodity markets, the oilfield property, plant and equipment and associated assets may be materially affected in the near term by further write-downs.

7 Oilfield property, plant and equipment

Rogers County

During 2005, the Corporation entered into an Option Agreement (the "Option Agreement") to acquire ninety percent (90%) of the working interest in the production, equipment and mineral leases of Phoenix Oil, LLC ("Phoenix") of Claremore, Oklahoma, for total consideration of US\$180,000. The leases, known as the Chelsea-Alluwe Waterflood Leases, are comprised of 780 acres and are situated in Rogers County, Oklahoma. For the Option Agreement, the Corporation paid a US\$15,000 deposit that was applied to the total purchase price. A related limited liability company, Boulder Oil, LLC ("Boulder") executed the Option Agreement on behalf of the Corporation by paying the remaining US\$165,000 of the purchase price for a sixty percent (60%) working interest in the leases. A director and a related party to a director of the Corporation control fifty-five percent (55%) of the voting membership units of Boulder. In consideration for the US\$15,000 deposit paid, the Corporation retained a thirty percent (30%) working interest in the leases. During 2006, the Corporation then acquired the ten percent (10%) working interest in the Rogers County venture from Phoenix in exchange for \$214,352 owed, bringing the Corporations total working interest to forty (40%) percent. Each working interest party is responsible for operating and field development costs in proportions relative to their working interest percentage.

Included in oilfield property, plant and equipment is the Corporation's proportionate share of oil well development costs totalling \$1,003,695 (2007 - \$1,786,345) related to the Rogers County venture. During the fiscal year ended August 31, 2006, the Corporation became the operator of record, and Boulder, as a non-operating partner, exercised its non-participation right in the Joint Operating Agreement. As at August 31, 2008, amounts recorded under non-participation amounts due by Boulder totalled \$1,085,773 (2007 -

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\$2,040,896). Under the Joint Operating Agreement, the Corporation will receive all production revenues from production wells associated with the costs incurred until such time that the Corporation is repaid 200% of the costs incurred, after which, production revenues will revert back to the working interest proportions.

The Corporation has recognized production revenue of \$115,865 (2007 – \$87,683) related to the Rogers County venture.

Young County

During the year ended August 31, 2007, the Corporation acquired one hundred (100%) percent of the working interest in certain mineral leases in Young County, Texas for total consideration of \$179,868. No costs were incurred on these leases for the year ended August 31, 2008 (2007 - \$nil).

Taylor County

During the year ended August 31, 2008, the Corporation acquired fifty (50%) percent working interest in certain mineral leases in Taylor County, Texas for total consideration of \$39,768. No costs were incurred on these leases for the year ended August 31, 2008 (2007 - \$nil).

8 Intangible assets

	2008		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Royalty rights	2,266,306	58,723	2,207,583
Fully-paid up license	106,990	15,555	91,435
Patents	348,864	78,559	270,305
Incorporation costs	3,451	2,678	773
	<u>2,726,611</u>	<u>155,515</u>	<u>2,570,096</u>

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	2007		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Royalty rights	2,016,443	6,479	2,009,964
Fully-paid up license	106,990	8,826	98,164
Patents	154,225	50,255	103,970
Incorporation costs	3,445	2,334	1,111
	<u>2,281,103</u>	<u>67,894</u>	<u>2,213,209</u>

Amortization expense for the year ended August 31, 2008 totalled \$97,322 (2007 – \$25,579).

Greentree Gas and Oil Ltd. royalty rights

At August 31, 2006, the Corporation entered into a “Farm-in” Agreement with Greentree Gas and Oil Ltd. (“Greentree”) to develop Greentree’s Rodney South oilfield lease. Under the Farm-in Agreement the Corporation will supply its Powerwave technology and fund up to \$2.25 million for initial capital expenditures and working capital requirements. Additional development costs are expected to be financed from cash from operations. Greentree will act as the Operator of the lease and will contribute the petroleum leases, existing seismic and geological data, and the use of its existing field facilities. Greentree will also provide its field maintenance staff, administrative, and office support staff. In consideration for each party’s contributions, cash flows from operating activities will be allocated 70% and 30% to the Corporation and Greentree, respectively, until payout of the Corporation’s initial \$2.25 million capital investment. Subsequent to payout, cash flow from operating activities will be allotted 50% to the Corporation and Greentree respectively. As at August 31, 2008, the Corporation has paid Greentree \$2,168,834 (2007 – \$1,823,235) and accrued \$nil (2007 – \$132,828) under the Farm-in Agreement. The Corporation is obligated to the remaining balance of up to \$81,166 (2007 - \$293,937) under the Farm-in Agreement. The resulting asset is classified as finite life intangible asset.

Amortization expense for the year ended August 31, 2008 totalled \$61,973 (2007 - \$nil) on the gross over-riding royalty rights.

During the year ended August 31, 2006, the Corporation entered into a net over-riding royalty agreement on a single gas well with Greentree. During the 2008 fiscal year the Corporation the Corporation wrote off the intangible asset related to the Greentree “Net Over-riding Royalty” Agreement with a carrying value of \$50,661.

9 Due to shareholders

In connection with the business acquisition described in note 5, the shareholders of Top Gun agreed to enter into debt repayment agreements. Under the terms of the debt repayment agreements, the amounts due to shareholders are unsecured, and are repayable in equal quarterly installments over three years.

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10 Obligations under capital leases

The obligations under capital leases bear interest at rates ranging from 1.9% to 4.0% and mature in 2009. Assets with a net book value of \$29,392 (2007 – \$109,860) have been pledged as collateral.

	2008 \$	2007 \$
Total obligations under capital leases	24,049	105,600
Less: Interest	-	1,688
	<hr/>	<hr/>
Balance of obligations under capital leases	24,049	103,912
Less: Current portion	24,049	30,081
	<hr/>	<hr/>
Long-term obligations under capital leases	-	73,831
	<hr/>	<hr/>

Interest expense for the year ended August 31, 2008 totalled \$2,268 (2007 – \$1,688).

Aggregate annual principal payments due on the obligations under capital leases required in the next year is as follows:

	\$
2009	<hr/> 24,049

11 Asset retirement obligation

The Corporation has asset retirement obligations associated with its oilfield property, plant and equipment (note 7). These asset retirement obligations primarily relate to the plugging of wells and abandonment costs.

The following table presents the reconciliation of the beginning and ending aggregate carrying amount of the obligations associated with the retirement of the Corporation's proportion of oilfield property, plant and equipment assets:

	2008 \$	2007 \$
Asset retirement obligations – Beginning of year	74,890	62,668
Liabilities incurred	64,494	5,187
Accretion expense	35,178	7,035
	<hr/>	<hr/>
Asset retirement obligations – End of year	174,562	74,890
	<hr/>	<hr/>

The total undiscounted amount of estimated cash flows required to settle the obligation is US\$334,028 (2007 – US\$322,528), which has been discounted using credit-adjusted risk free rates ranging from 6.72% to 13.61%.

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The majority of these obligations are not expected to be settled for one to twenty-eight years in the future and will be funded from general corporate resources at the time of the retirement and removal.

12 Income taxes

Future income taxes reflect the net tax affects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The Corporation has recognized a valuation allowance for those future tax assets for which it is more likely than not that realization will not occur. Significant components of the Corporation's future tax assets and liabilities as of August 31, 2008 are as follows:

	2008 \$	2007 \$
Future income tax assets		
Non-capital losses carried forward	2,699,188	2,558,422
Net operating losses carried forward	1,353,406	756,101
Interest expense not tax-deductible until future years	120,607	109,591
Research and development expenditures	111,741	127,805
Property, plant and equipment and intangible assets	665,221	-
Financing costs	289,707	125,827
Unrealized foreign exchange capital losses	50,761	58,058
	<hr/> 5,290,631	<hr/> 3,735,804
Future income tax liabilities		
Property, plant and equipment and intangible assets	<hr/> -	<hr/> (105,892)
	5,290,631	3,629,912
Less: Valuation allowance	<hr/> (5,290,631)	<hr/> (3,629,912)
Net future income tax asset	<hr/> -	<hr/> -

As at August 31, 2008, the Corporation has scientific research and experimental development expenditures in the amount of \$444,926 (2007 – \$444,926) available for carry-forward to reduce future taxable income.

The Corporation and its subsidiaries also have, in aggregate, Canadian non-capital losses in the amount of \$10,747,487 and U.S. net operating losses of \$3,383,514 to be carried forward and used to reduce income for tax purposes in future years, subject to confirmation by taxation authorities. The potential income tax benefits associated with these losses and expenditures have not been reflected in the consolidated financial statements as they have been fully offset by a valuation allowance. These losses expire as follows:

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	U.S. \$	Canadian \$
2009	-	1,504,905
2010	-	579,441
2014	-	1,823,383
2015	-	1,112,562
2024	669	-
2025	180,377	-
2026	327,314	1,792,581
2027	1,381,892	1,208,478
2028	1,493,262	2,726,137
	<u>3,383,514</u>	<u>10,747,487</u>

The Corporation's substantially enacted Canadian statutory tax rate is approximately 29.64% (2007 – 32.35%). The difference between the computed expected income tax recovery and the actual income tax recovery are summarized as follows:

	2008 \$	2007 \$
Loss before income tax	<u>(6,945,179)</u>	<u>(4,349,901)</u>
Expected income tax recovery at statutory income tax rate	(2,058,551)	(1,407,192)
Adjusted for the following:		
Difference between U.S. and Canadian tax rates on U.S. losses	(279,635)	(95,130)
Stock-based compensation	117,132	433,606
Unrealized foreign exchange capital loss	24,947	65,385
Substantively enacted rates	516,504	102,270
Expiry of non-capital losses	247,495	263,877
Financing costs	(273,785)	-
Valuation allowance	1,660,719	574,574
Non-deductible and other items	45,174	62,610
	<u>-</u>	<u>-</u>

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13 Contingences and commitments

a) Operating leases

The Corporation is committed under various operating leases for premises, vehicles and contracts. The minimum amounts payable over the next year is as follows:

	\$
2009	<u>55,884</u>

b) Farm-in Agreement

As described in note 8, the Corporation is obligated to fund \$81,166 as at August 31, 2008 (2007 - \$293,937) under the Farm-in Agreement with Greentree.

c) Supplier purchase obligations

The Corporation is committed to the purchase of inventory in the amount of \$620,306 as at August 31, 2008 (2007 - \$293,613) from a third party supplier.

14 Share capital

The Corporation's authorized and issued share capital for the year ended August 31, 2008 and 2007 are as follows:

Authorized

Unlimited common shares without par value

Issued common shares

	<u>2008</u>		<u>2007</u>	
	Number #	Stated capital \$	Number #	Stated capital \$
Balance – Beginning of year	48,572,112	26,911,271	47,913,796	26,279,824
Shares issued in private placement ⁽¹⁾⁽²⁾	14,626,730	12,147,021	-	-
Shares issued in Top Gun acquisition ⁽³⁾	-	-	600,000	600,000
Stock options exercised ⁽⁴⁾	552,603	461,680	58,316	31,447
Warrants exercised ⁽⁵⁾	7,313,363	9,799,732	-	-
Balance – End of year	<u>71,064,808</u>	<u>49,319,704</u>	<u>48,572,112</u>	<u>26,911,271</u>

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- ⁽¹⁾ Effective December 24, 2007, the Corporation issued 4,985,678 units at a price of \$0.95 per unit for gross proceeds of \$4,736,394. The 4,985,678 units were issued by way of a brokered and concurrent non-brokered private placement. Each unit consisted of one common share and one-half common share purchase warrant, with each full share purchase warrant entitling the holder to acquire a common share at a price of \$1.25 for a period of 12 months ended December 24, 2008, or subject to earlier expiry. The common share purchase warrants were valued at \$333,157. The Corporation paid filing fees, finders fees, legal and agent expenses of \$478,465, resulting in net cash proceeds of \$4,257,929.
- ⁽²⁾ Effective January 31, 2008, the Corporation issued 9,641,052 units at a price of \$0.95 per unit for gross proceeds of \$9,158,999. The 9,641,052 units were issued by way of a brokered and concurrent non-brokered private placement. Each unit consisted of one common share and one-half common share purchase warrant, with each full share purchase warrant entitling the holder to acquire a common share at a price of \$1.25 for a period of 12 months ended January 31, 2009, or subject to earlier expiry. The common share purchase warrants were valued at \$324,871. The Corporation paid filing fees, finders fees, legal and agent expenses of \$611,879, resulting in net cash proceeds of \$8,547,120.
- ⁽³⁾ In connection with the Acquisition of Top Gun (note 5), the Corporation issued 600,000 common shares at a deemed value of \$600,000.
- ⁽⁴⁾ The 552,603 stock options exercised during the year ended August 31, 2008, were at a prices ranging from \$0.40 to \$1.76. The 58,316 stock options exercised during the year ended August 31, 2007 were at prices ranging from \$0.40 to \$0.50.
- ⁽⁵⁾ In connection with the December 24, 2007 and the January 31, 2008 private placements noted above, all common share purchase warrants ("Warrant") were exercised at a price of \$1.25 per Warrant for gross proceeds of \$9,141,704.

Common share purchase warrants	Number	Weighted
	#	average
		exercise price
		\$
Outstanding – August 31, 2007	-	-
Granted	7,313,363	1.25
Exercised	(7,313,363)	1.25
	<hr/>	<hr/>
Outstanding – August 31, 2008	-	-

Stock-based compensation plan

The Corporation maintains an Employee, Director, Officer and Consultant Stock Option Plan under which the Corporation may grant options for up to 10,771,583 shares of the Corporation at an exercise price equal to or greater than the market price of the Corporation's stock at the date of grant. All options awarded are exercisable for a period of five years and vest in equal tranches at three (3) month intervals over a period of eighteen (18) months.

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A summary of the status of the Corporation's stock option plan as at August 31, 2008 and 2007, and the changes during the years ended on those dates are presented below:

Stock options	2008		2007	
	Number #	Weighted average exercise price \$	Number #	Weighted average exercise price \$
Outstanding – Beginning of year	3,017,773	1.30	2,941,089	1.29
Granted	620,000	2.08	205,000	0.97
Exercised	(552,603)	0.66	(58,316)	0.45
Cancelled	(70,000)	0.81	(70,000)	0.56
Outstanding – End of year	3,015,170	1.60	3,017,773	1.30

Exercise price \$	Options outstanding		Options exercisable	
	Number outstanding #	Weighted average remaining contractual life in years	Number outstanding #	Weighted average remaining contractual life in years
2.95	725,000	2.4	725,000	2.4
2.90	160,000	4.8	-	-
2.57	200,000	2.7	200,000	2.7
2.05	200,000	4.5	33,333	4.5
1.76	100,000	2.9	100,000	2.9
1.65	210,000	4.5	70,000	4.5
1.40	50,000	4.6	16,667	4.6
0.97	120,170	3.5	97,669	3.5
0.55	50,000	0.3	50,000	0.3
0.50	485,000	0.1	485,000	0.1
0.45	265,000	1.1	265,000	1.1
0.44	210,000	0.7	210,000	0.7
0.40	240,000	2.0	240,000	2.0
	3,015,170	2.2	2,492,669	1.8

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- a) Effective February 14, 2008, the Corporation issued 50,000 stock options to a consultant of the Corporation with an exercise price of \$1.40. The stock options are subject to the stock option plan, additional vesting provisions relating to sales, and expire on February 14, 2013.
- b) Effective February 22, 2008, the Corporation issued 210,000 stock options to the directors of the Corporation with an exercise price of \$1.65. The stock options are subject to the stock option plan, and expire on February 22, 2013.
- c) Effective March 4, 2008, the Corporation issued 200,000 stock options to employees of the Corporation with an exercise price of \$2.05. The stock options are subject to the stock option plan, and expire on March 4, 2013.
- d) Effective June 27, 2008, the Corporation issued 160,000 stock options to employees of the Corporation with an exercise price of \$2.90. The stock options are subject to the stock option plan, and expire on June 27, 2013.
- e) Effective March 6, 2007, the Corporation issued 205,000 stock options to directors and employees of the Corporation with an exercise price of \$0.97. These stock options are subject to the stock option plan and expire on March 6, 2012. Of the 205,000 stock options issued, 90,000 were issued to directors of the Corporation.

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 wage and to consultant expense with a corresponding increase in contributed surplus, assuming the following:

	2008	2007
Dividend yield	-	-
Risk-free rate	2.88% to 3.40%	3.98%
Average life	5 years	5 years
Volatility rate	98.20% to 112.85%	104.09%
	\$	\$
Weighted fair value of options granted during the year	1.50	0.76

During the year ended August 31, 2008, the Corporation incurred \$395,142 (2007 – \$1,340,358) 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 options by the holders.

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Contributed surplus

	2008 \$	2007 \$
Balance – Beginning of year	2,342,069	1,006,832
Stock based compensation	395,142	1,340,358
Warrant issuance	658,028	-
Stock options exercised	(94,298)	(5,121)
Warrants exercised	(658,028)	-
	<hr/>	<hr/>
Balance – End of year	2,642,913	2,342,069

Escrow shares

In connection with the business acquisition (note 5) that closed on March 1, 2007, 600,000 common shares were issued as part of the consideration. The balance of all common shares held in escrow as at August 31, 2008, was 360,000 (2007 – 540,000).

15 Loss per share

The Corporation uses the treasury stock method to calculate diluted earnings per share. Under the treasury stock method, the numerator remains unchanged from the basic earnings per share calculation, as the assumed exercise of the Corporation's share purchase warrants and stock options do not result in an adjustment to income. The weighted average number of common shares outstanding is 62,035,011 (2007 – 47,937,111).

Diluted loss per share is computed by giving effect to the potential dilution that would occur if stock options were exercised. The treasury stock method assumes that the proceeds received from the exercise of the "in-the-money" stock options are used to repurchase common shares at the average market price for the year ended August 31, 2008.

In determining diluted loss per share, the weighted average number of shares outstanding was increased by 631,616 (2007 – 776,778) for stock options eligible for exercise where the average market price of the common shares for the year exceeds the exercise price. The diluted weighted average number of shares outstanding was 62,666,627 (2007 – 48,713,889). As the result was anti-dilutive in both fiscal 2008 and 2007, no adjustments were made to net loss to calculated diluted loss per share.

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16 Net change in non-cash working capital items

	2008	2007
	\$	\$
Accounts receivable	144,114	(191,636)
Inventories	(5,393)	(80,946)
Prepaid expenses and other current assets	(11,662)	7,248
Goodwill restatement	432,139	-
Accounts payable and accrued liabilities	(107,622)	(295,366)
	<u>451,576</u>	<u>(560,700)</u>

17 Segmented information

The Corporation determines its reportable segments based on the structure of its operations, which are focused in two principal business segments – the deployment of technology and equipment to third parties in return for rental and royalty income and, the development of oil and gas properties utilizing the Corporation's Powerwave technology and equipment. The accounting policies of these segments are the same as those described in note 2.

Year ended August 31, 2008	Equipment and technology \$	Oil and gas properties \$	Corporate and other \$	Year ended August 31 2008 \$
Revenue	857,845	141,711	753,006	1,752,562
Net loss for the year	(2,490,247)	(3,167,277)	(1,287,655)	(6,945,179)
Changes in goodwill	(432,138)	-	-	(432,138)
Segment assets	4,541,793	4,805,880	22,581,054	31,928,727
Capital expenditures	941,129	763,159	90,368	1,794,656

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Year ended August 31, 2007	Equipment and technology \$	Oil and gas properties \$	Corporate and other \$	Year ended August 31 2007 \$
Revenue	993,080	192,395	351,803	1,537,278
Net loss for the year	(1,204,606)	(1,477,891)	(1,667,404)	(4,349,901)
Changes in goodwill	1,421,000	-	-	1,421,000
Segment assets	4,350,004	6,374,847	5,794,903	16,519,754
Capital expenditures	2,215,146	3,485,231	67,781	5,768,185

Geographic Information	2008		2007	
	Revenue \$	Total assets \$	Revenue \$	Total assets \$
Canada	1,610,852	29,125,171	1,318,738	12,195,833
United States	141,710	2,803,556	218,540	4,323,921
	<u>1,752,562</u>	<u>31,928,727</u>	<u>1,537,278</u>	<u>16,519,754</u>

During the year ended August 31, 2008, the Corporation recorded revenue from forty (2007 – thirty-nine customers). Sales in 2008 from the top three customers amounted to \$282,942, \$265,714 and \$241,971, which represented 16.1%, 15.1% and 13.8%, respectively of total revenue. Sales in 2007 from the top three customers amounted to \$267,162, \$184,012 and \$153,941, which represented 17.8%, 12.0% and 10.0%, respectively of total revenue.

18 Seasonality of operations

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

The Corporation focuses its resources on Powerwave and Primawave technologies. There no known seasonal fluctuations in regards to oil production, where the Corporation has mineral rights or enters into licensing or usage agreements in either targeted implementation sectors. As such management believes that this seasonality of operations will have minimal affects moving forward.

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19 Financial instruments

Financial instruments consist of recorded amounts of accounts receivable and other like amounts that will result in future cash receipts, as well as accounts payable and accrued liabilities, borrowings, obligations under capital leases, due to shareholders, asset retirement obligations and other amounts that will result in future cash outlays.

Risk management

The financial risk is the risk to the Corporation's earnings that arises from fluctuations in foreign currency exchange rates the degree of volatility of this rate. The Corporation does not use derivative instruments to reduce its exposure foreign currency risk.

Foreign currency risk

The Corporation is exposed to currency risks as a result of its export to foreign jurisdictions of goods produced in Canada or services provided from Canada. These risks are partially covered by purchases of goods and services in the foreign currency.

Credit risk

Credit risk arises from the potential that a counterparty will fail to perform its obligations. The Corporation's financial instruments that are exposed to concentrations of credit risk consist primarily of accounts receivable and non-participation amounts due. Concentrations of credit risk with respect to accounts receivable are limited as the majority of transactions are with large publicly traded corporations or government organizations and the dispersion of these customers across geographic areas. Concentrations of credit risk with respect to non-participation amounts due are related to the Rogers County venture (note 7) and are based on production of that venture.

Fair value of financial instruments

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

20 Guarantees

In the normal course of operations, the Corporation may provide indemnification to counterparties that would require the Corporation 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 Corporation's financial position or operating results.

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21 Related party transactions

The Corporation had the following related party transactions:

- a) During the year ended August 31, 2008, directors and a related party to a director of the Corporation exercised 392,755 incentive stock options at prices ranging from \$0.45 to \$0.55 for aggregate consideration \$192,990.
- b) In a prior year, the Corporation entered into the Option Agreement to acquire ninety percent (90%) of the working interest in the production, equipment and mineral leases of known as the Chelsea-Alluwe Waterflood Leases in Rogers County, Oklahoma ("Leases"). Boulder Oil, LLC, a related limited liability company executed the Option Agreement on behalf of the Corporation by paying US\$165,000 of the purchase price in exchange for a sixty percent (60%) working interest in the Leases. Each working interest party is responsible for operating and field development costs in proportions relative to their working interest percentage.

During the fiscal year ending August 31, 2006, the Corporation became the Operator of Record. As the Operator, the Corporation is initially responsible for all operating expenses and development costs, which are then charged back to each non-operating partner relative to their working interest percentage. Boulder however, as a non-operating partner, exercised its non-participation right under the Joint Operating Agreement. Under the Joint Operating Agreement, the Corporation will receive all production revenues from production wells until such time that the Corporation is repaid 200% of the costs incurred, after which, production revenues will revert back to the working interest proportions. As at August 31, 2008, amounts recorded under non-participation amounts due by Boulder totalled \$1,085,773 (2007 – \$2,040,896). Under the Joint Operating Agreement, the Corporation will receive all production revenues from production wells associated with the costs incurred until such time that the Corporation is repaid 200% of the costs incurred, after which, production revenues will revert back to the working interest proportions.

During the fiscal year the Corporation decided to cease further development of Rogers County, so in accordance with the CICA recommendations for impairment for unproved properties under full cost accounting guidelines, the Corporation realized a write-down of its Rogers County non-participation amounts due by \$1,056,989. The fair value was determined based on estimated present value of future cash flows calculated using internal production estimates and historical average prices per barrel of oil. The calculated amounts to be written-down, and the resulting carrying value of the Rogers County non-participation amounts due, may not be indicative of the actual values. Additionally, given the volatility in the financial and commodity markets, the Rogers County non-participation amounts due may be materially affected in the near term by further write-downs.

22 Comparative figures

Certain comparative figures have been reclassified to conform with the current year presentation.

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23 Subsequent events

Subsequent to the year ended August 30, 2008, 410,000 stock options were exercised at a prices ranging from \$0.50 to \$0.55 for gross proceeds of \$207,500. Of the 410,000 stock options exercised, 300,000 stock options were exercised by two directors of the Corporation at prices ranging from \$0.50 to \$0.55.