

Unaudited Consolidated Financial Statements of

WAVEFRONT ENERGY AND ENVIRONMENTAL SERVICES INC.

For the Second Quarter ended February 29, 2008 and 2007

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WAVEFRONT ENERGY AND ENVIRONMENTAL SERVICES INC.

Notes to Consolidated Financial Statements (Unaudited)

Six Month Period Ended February 29, 2008

	As at February 29, 2008 \$ (Unaudited)	As at August 31, 2007 \$ (Audited – note 2)
Assets		
Current assets		
Cash and cash equivalents	16,051,397	5,430,949
Accounts receivable	379,599	902,294
Prepaid expenses	85,675	24,971
Inventory	59,021	80,946
	<u>16,575,692</u>	6,439,160
Deposits	57,731	61,806
Property, plant and equipment (notes 6 and 13)	6,817,117	6,384,578
Intangible assets (note 7)	2,579,435	2,213,209
Goodwill (note 5)	898,605	1,421,001
	<u>26,928,580</u>	16,519,754
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	1,024,246	1,275,854
Current portion of amounts due to shareholders	140,917	151,637
Current portion of obligations under capital leases	14,523	30,081
	<u>1,179,686</u>	1,457,572
Due to shareholders	37,120	227,456
Obligations under capital leases	70,964	73,831
Asset retirement obligation (note 8)	148,222	74,890
	<u>1,435,992</u>	1,833,749
Shareholders' Equity		
Share capital (note 10)	39,087,341	26,911,271
Contributed surplus	3,118,392	2,342,069
Deficit	(16,713,145)	(14,567,335)
	<u>25,492,588</u>	14,686,005
	<u>26,928,580,439</u>	16,519,754

WAVEFRONT ENERGY AND ENVIRONMENTAL SERVICES INC.

Notes to Consolidated Financial Statements (Unaudited)

Six Month Period Ended February 29, 2008

	Six Month Period Ended		Three Month Period Ended	
	February 29, 2008	February 28, 2007	February 29, 2008	February 28, 2007
	\$	\$	\$	\$
Revenue				
Service revenue and royalties	396,705	49,987	195,420	13,282
Production revenue and operator fees, net of taxes and royalties	84,469	102,265	53,839	63,663
Interest and other	145,930	205,625	93,027	92,075
	<u>627,104</u>	<u>357,877</u>	<u>342,286</u>	<u>169,020</u>
Expenses				
Direct costs	205,593	11,746	62,320	(13,139)
General and administrative expenses	1,495,341	1,220,060	839,556	648,480
Selling, marketing and travel	387,420	208,717	203,700	82,615
Amortization, depreciation, depletion and accretion expenses	279,219	78,943	169,008	42,597
Listing and public company fees	132,806	85,698	81,345	64,679
Research and development	159,191	33,681	14,812	18,770
	<u>2,659,570</u>	<u>1,638,299</u>	<u>1,370,741</u>	<u>844,002</u>
Loss before the under noted items	<u>(2,032,466)</u>	<u>(1,280,422)</u>	<u>(1,028,455)</u>	<u>(674,982)</u>
Stock-based compensation	(124,434)	(773,900)	(27,196)	(382,978)
Foreign exchange gain (loss)	18,842	(25,370)	(65,387)	25,429
Gain on disposal of property, plant and equipment	16,325	6,655	16,325	6,655
Interest expense	(24,077)	(426)	(22,826)	(82)
Net loss and comprehensive loss for the period	<u>(2,145,810)</u>	<u>(2,073,463)</u>	<u>(1,127,539)</u>	<u>(1,025,658)</u>
Deficit – Beginning of period	<u>(14,567,335)</u>	<u>(10,217,434)</u>	<u>(15,585,606)</u>	<u>(11,265,239)</u>
Deficit – End of period	<u>(16,713,145)</u>	<u>(12,290,897)</u>	<u>(16,713,145)</u>	<u>(12,290,897)</u>
Loss per common share (note 11)				
Basic and diluted	<u>(0.04)</u>	<u>(0.04)</u>	<u>(0.02)</u>	<u>(0.02)</u>

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Notes to Consolidated Financial Statements (Unaudited)

Six Month Period Ended February 29, 2008

	Six Month Period Ended		Three Month Period Ended	
	February 29, 2008	February 28, 2007	February 29, 2008	February 28, 2007
	\$	\$	\$	\$
Cash provided from (used in)				
Operating activities				
Net loss for the period	(2,145,810)	(2,073,463)	(1,127,539)	(1,025,658)
Items not affecting cash				
Amortization, depreciation, depletion and accretion expenses	279,219	78,943	169,008	42,597
Stock-based compensation (note 10)	124,434	773,900	27,196	382,687
Gain on disposal of property, plant and equipment	(16,325)	(6,655)	(16,325)	(6,655)
	<u>(1,758,482)</u>	<u>(1,227,275)</u>	<u>(947,660)</u>	<u>(607,029)</u>
Net change in non-cash working capital items	265,415	(108,325)	107,057	494,465
	<u>(1,493,067)</u>	<u>(1,335,600)</u>	<u>(840,603)</u>	<u>(112,564)</u>
Financing activities				
Proceeds from Private Placements – net of share issuance costs (note 10)	12,805,050	-	12,805,050	-
Proceeds from exercise of incentive stock options	22,910	15,000	22,910	15,000
Repayment of amounts due to shareholder	(66,137)	-	(28,228)	-
Repayment of obligations under capital leases	(18,425)	(1,878)	(9,247)	-
	<u>12,743,398</u>	<u>13,122</u>	<u>12,790,485</u>	<u>15,000</u>
Investing activities				
Purchase of property, plant and equipment (note 6)	(433,726)	(1,907,969)	(156,824)	(880,611)
Proceeds on disposal of property, plant and equipment	90,784	11,972	90,784	11,972
Intangible costs (note 7)	(286,941)	(1,233,772)	(63,592)	(1,215,249)
	<u>(629,883)</u>	<u>(3,129,769)</u>	<u>(129,632)</u>	<u>(2,083,888)</u>
Increase (decrease) in cash and cash equivalents	10,620,448	(4,452,247)	11,820,250	(2,181,452)
Cash and cash equivalents – Beginning of period	5,430,949	14,411,315	4,231,147	12,140,520
Cash and cash equivalents – End of period	16,051,397	9,959,068	16,051,397	9,959,068
Supplementary information				
Interest paid	14,197	1,016	13,143	292

WAVEFRONT ENERGY AND ENVIRONMENTAL SERVICES INC.

Notes to Consolidated Financial Statements (Unaudited)

Six Month Period Ended February 29, 2008

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. BASIS OF PRESENTATION

These interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") for interim financial statements using the same accounting policies as set out in the financial statements of the Corporation for the year ended August 31, 2007 except for the new accounting pronouncements adopted during the period as described in note 3. Omitted from these statements are certain information and note disclosures normally included in the annual consolidated financial statements prepared in accordance with Canadian GAAP. These interim consolidated financial statements should be read in conjunction with the financial statements of the Corporation for the year ended August 31, 2007.

3. CHANGE IN ACCOUNTING POLICIES

Effective September 1, 2007 the Corporation adopted the recommendations of Canadian Institute of Chartered Accountants (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.

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.

WAVEFRONT ENERGY AND ENVIRONMENTAL SERVICES INC.

Notes to Consolidated Financial Statements (Unaudited)

Six Month Period Ended February 29, 2008

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
<u>Financial liabilities</u>		
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

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Notes to Consolidated Financial Statements (Unaudited)

Six Month Period Ended February 29, 2008

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. In accordance with CICA Handbook Section 3865, the Corporation conducted a search for hedges, and did not identify any hedging items.

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 six month period ended February 29, 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.

4. RECENT ACCOUNTING PRONOUNCEMENTS ISSUED AND NOT YET ADOPTED

Capital disclosures

In November 2006, the CICA issued the new handbook Section 1535, "Capital Disclosures," effective for annual and interim periods relating to fiscal years beginning on or after October 1, 2007. This section establishes standards for disclosing information about a company's capital and how it is managed in order that a user of the financial statements may evaluate the company'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. This standard applies to interim and annual financial statements beginning September 1, 2008.

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 our 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:

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Six Month Period Ended February 29, 2008

	\$
Current assets	511,752
Non-current assets	<u>515,326</u>
Total assets acquired	1,027,078
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>129,549</u>
Total liabilities assumed	<u>725,683</u>
Net assets acquired	301,395
Goodwill	<u>898,605</u>
Purchase price	<u>1,200,000</u>

During the reporting period 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 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.

In addition to the above revision to plant and equipment, and to be consistent with Handbook Section 3855, Financial Instruments, the Corporation revised the carrying value of the non-interest bearing Shareholder notes, discounting the principal outstanding by \$147,325, such that the Corporation is accruing interest at 8.5% on the Shareholder notes payable.

WAVEFRONT ENERGY AND ENVIRONMENTAL SERVICES INC.

Notes to Consolidated Financial Statements (Unaudited)

Six Month Period Ended February 29, 2008

6. PROPERTY, PLANT and EQUIPMENT

	As at February 29, 2008		As at August 31, 2007	
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Oil field property, plant and equipment	2,258,149	-	2,258,149	\$ 1,966,213
Non-participation amounts due	1,937,052	-	1,937,052	2,040,896
Equipment	2,727,377	402,268	2,325,109	2,032,893
Computer equipment	214,426	122,655	91,771	100,690
Computer software	212,287	140,513	71,774	97,572
Automotive equipment	186,555	81,100	105,455	115,647
Office furniture	68,820	41,013	27,807	30,667
	<u>7,604,666</u>	<u>787,549</u>	<u>6,817,117</u>	<u>\$ 6,384,578</u>

Property, plant and equipment includes oil field property, plant and equipment of \$2,258,149 related to improved properties and therefore not subject to depreciation and depletion, and equipment under construction of \$1,369,777 (August 31, 2007 - \$1,710,408), which is not being depreciated. Property, plant and equipment also include assets under capital leases with a cost of \$168,140 (August 31, 2007 - \$168,140) and a net book value of \$98,874 (August 31, 2007 - \$109,860).

Depreciation expense for the six month period ended February 29, 2008 was \$243,624 (February 28, 2007 \$67,416), including depreciation relating to equipment under capital leases of \$12,207 (2007 - \$42). No depletion or depreciation of oil field property plant and equipment has been recorded as at February 29, 2008 and February 28, 2007 as the oil field property remains classified as an unproven property.

Oil field property, plant and equipment

Rogers County

Included in oil field property, plant and equipment is the Corporation's proportionate share of oil well development costs totaling \$2,078,280 (August 31, 2007 - \$1,786,345) related to the Rogers County venture.

In fiscal 2006, the Corporation became the operator of record of the Rogers County venture, and Boulder Oil, LLC ("Boulder"), as a non-operating partner and related party, exercised its non-participation rights in the Joint Operating Agreement. As at February 29, 2008, principal amounts due to the Corporation from Boulder totaled \$1,937,052 (August 31, 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 as the Corporation is repaid 200% of the costs incurred, after which, production revenues will revert back to the party's original working interest proportions. Production revenue in the amount of \$71,971 originally attributable to Boulder has been recorded against the cost of the non-participation amounts due.

No depletion or depreciation of the non-participation amounts has been recorded as the underlying asset remains classified as an unproven property.

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Six Month Period Ended February 29, 2008

The Corporation has recognized production revenue of \$43,812 (February 28, 2007 – \$18,259) related to the Rogers County venture.

Young County

During the year ended August 31, 2007, the Corporation acquired 100% 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 six month period ended February 29, 2008.

7. INTANGIBLE ASSETS

	As at February 29, 2008		As at August 31, 2007	
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Royalty rights	2,249,584	9,718	2,239,866	\$ 2,009,964
Fully-paid up license	106,990	12,127	94,863	98,164
Patents	306,927	63,167	243,760	103,970
Incorporation costs	3,451	2,505	946	1,111
	<u>2,666,952</u>	<u>87,517</u>	<u>2,579,435</u>	<u>\$ 2,213,209</u>

Amortization expense for the six month period ended February 29, 2008 totaled \$19,646 (February 28, 2007 - \$7,415).

Greentree Gas and Oil Ltd. royalty rights

In a prior year, the Corporation entered into a “Farm-in” Agreement with Greentree Gas & Oil Ltd. (“Greentree”) to develop Greentree’s Rodney South oil field 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 February 29, 2008, the Corporation has paid Greentree \$2,165,923 (August 31, 2007 – \$1,823,235) and accrued \$23,282 (August 31, 2007 – \$132,828) under the Farm-in Agreement. The Corporation is obligated to the remaining balance of up to \$60,795 under the Farm-in Agreement. The resulting asset is classified as a finite life intangible asset.

The Corporation has recognized production revenue of \$32,522 (February 28, 2007 – nil) related to the Greentree Farm-in venture.

No amortization expense of Farm-in amounts has been recorded to date as the underlying oil field property remains under development.

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Notes to Consolidated Financial Statements (Unaudited)

Six Month Period Ended February 29, 2008

During the year ended August 31, 2006, the Corporation also entered into a “Net Over-riding Royalty” Agreement on a single gas well with Greentree. As at February 29, 2008, the Corporation has recorded an intangible asset of \$60,379 (August 31, 2007 - \$60,379) on its balance sheet. The resulting asset is classified as a finite life intangible asset and is amortized based on the estimate life of the underlying asset. Amortization expense for February 29, 2008 is \$3,239, (February 28, 2007–nil).

8. ASSET RETIREMENT OBLIGATION

The Corporation has asset retirement obligations associated with its oil field property, plant and equipment. 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 oil field property, plant and equipment assets:

	Six Months Ended February 29, 2008	Year Ended August 30, 2007
	\$	\$
Asset retirement obligations – Beginning of period	74,890	62,668
Liabilities incurred	58,075	5,486
Liabilities settled	-	-
Accretion expense	15,949	7,035
Other	(692)	(299)
	<hr/>	<hr/>
Asset retirement obligations – End of period	148,222	74,890

The total undiscounted amount of estimated cash flows required to settle the obligation is \$425,157 (2007 – \$377,858), which has been discounted using credit-adjusted risk free rates ranging from 6.72% to 13.61%. The majority of these obligations are not expected to be settled for one to twenty-nine years in the future and will be funded from general corporate resources at the time of the retirement and removal.

9. COMMITMENTS

a) Operating leases

The Corporation is committed under various operating leases for premises, vehicles and contracts. The minimum amounts payable in each of the next two years and in total are as follows:

	\$
2008	136,824
2009	<hr/> 109,111
	<hr/> 245,935

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Notes to Consolidated Financial Statements (Unaudited)

Six Month Period Ended February 29, 2008

- b) Greentree Gas & Oil Farm-in Agreement

The Corporation obligation related to the Greentree Farm-in Agreement (note 7) is the remaining balance of up to \$60,795.

- c) The Corporation has committed purchase of Powerwave systems from third party suppliers totaling \$1,043,776.

10. SHARE CAPITAL

The Corporation's authorized and issued share capital as at February 29, 2008 and August 31, 2007 is as follows:

Authorized

Unlimited common shares without par value

Issued common shares

	Six Months Ended February 29, 2008		Year Ended August 31, 2007	
	Number #	Stated capital \$	Number #	Stated capital \$
Balance – Beginning of period	48,572,112	26,911,271	47,913,796	26,279,824
Shares issued in Top Gun acquisition ⁽¹⁾	-	-	600,000	600,000
Shares issued in private placement ⁽²⁾⁽³⁾	14,626,730	12,147,022	-	-
Stock options exercised ⁽⁴⁾	43,000	29,048	58,316	31,447
Balance – End of period	63,241,842	39,087,341	48,572,112	26,911,271

1. In connection with the Acquisition of Top Gun (note 5), the Corporation issued 600,000 common shares at an estimated value of \$600,000.
2. Effective December 24, 2007, the Corporation issued 4,985,678 units of the Corporation 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 \$478,464, resulting in net cash proceeds of \$4,257,930.
3. Effective January 31, 2008, the Corporation issued 9,641,052 units of the Corporation 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.

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4. 43,000 stock options were exercised during the six months ended February 29, 2008 at prices ranging from \$0.50 to \$0.97. Of the 43,000 stock options exercised, 40,000 were exercised by a director of the Corporation. During the year ended August 31, 2007, 58,316 stock options were exercised at prices ranging from \$0.40 to \$0.50.
5. Subsequent to February 29, 2008, 7,313,363 common share purchase warrants ("Warrant") were exercised at a price of \$1.25 per Warrant for gross proceeds of \$9,141,704.

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 10,711,558 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.

A summary of the status of the Corporation's stock option plan as at February 29, 2008 and August 31, 2007, and changes for the periods ended on those dates are presented below:

	Six Months Ended February 29, 2008		Year Ended August 31, 2007	
Stock options	Number #	Weighted average exercise price \$	Number #	Weighted average exercise price \$
Outstanding – Beginning of period	3,017,773	1.30	2,941,089	1.29
Granted	260,000	1.60	205,000	0.97
Exercised	(43,000)	0.53	(58,316)	0.45
Cancelled ^(a)	(70,000)	0.81	(70,000)	0.56
Outstanding – End of period	3,164,773	1.35	3,017,773	1.30

- a) During the six months ended February 29, 2008, 50,000 employee incentive stock options with an exercise price of \$0.97 per share and 20,000 non-employee incentive stock options with an exercise price of \$0.40 per share were cancelled unexercised.
- b) Of the 260,000 incentive stock option issued, 210,000 incentive stock options were issued to directors and officers of the Corporation.
- c) Subsequent to the reporting period ended February 29, 2008, 200,000 employee incentive stock options were issued with an exercise price of \$2.05 per share. Such employee incentive stock options are set to expire March 4, 2013.
- d) Subsequent to the reporting period ended February 29, 2008, 98,518 employee incentive stock options were exercised at prices ranging from \$0.40 to \$1.76 per share for gross proceeds of \$143,402.

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Six Month Period Ended February 29, 2008

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	2.9	604,167	2.9
2.57	200,000	3.2	133,333	3.2
1.76	175,000	3.4	87,500	3.4
1.65	210,000	5.0	-	5.0
1.40	50,000	5.0	-	5.0
0.97	132,000	4.0	6,667	4.0
0.55	125,000	0.8	125,000	0.8
0.50	620,000	0.6	660,000	0.6
0.45	407,755	1.6	407,755	1.6
0.44	210,000	1.1	210,000	1.1
0.40	310,018	2.4	330,018	2.4
	3,164,773	2.7	2,564,440	2.7

The fair value of the compensation costs of stock options issued to both employees and non-employees was calculated using the Black-Scholes option pricing model resulting in an additional charge to wages and to consultant expense with a corresponding increase in contributed surplus, assuming the following:

	Six Months Ended February 29, 2008 %	Year Ended August 31, 2007 %
Dividend yield	-	-
Risk-free rate	3.35	3.98
Average life	5 years	5 years
Volatility rate	97.35 to 97.38	104.09
	\$	\$
Weighted fair value of options granted during the period	1.23 to 1.04	0.76

During the six months ended February 29, 2008, the Corporation incurred \$124,434 (February 28, 2007 - \$773,900) in compensation expense relating to outstanding employee 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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Notes to Consolidated Financial Statements (Unaudited)

Six Month Period Ended February 29, 2008

Escrow shares

In connection with the business acquisition (note 5) that closed on March 1, 2007, 600,000 common shares, subject to a value escrow agreement, were issued as part of the consideration. The balance of all common shares held in escrow as at February 29, 2008, was 450,000 (August 31, 2007 – 540,000).

11. NET LOSS PER SHARE

The Corporation uses the treasury stock method to calculate diluted loss per share. Under the treasury stock method, the numerator remains unchanged from the basic loss 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 was 51,920,405 (February 28, 2007 - 47,818,911).

Diluted loss per share is computed by giving effect to the potential dilution that would occur if stock options and common share purchase warrants were exercised. The treasury stock method assumes that the proceeds received from the exercise of the "in-the-money" stock options and common share purchase warrants are used to repurchase common shares at the average market price for the period ended February 29, 2008.

In determining diluted loss per share, the weighted average number of shares outstanding was increased by 802,582 (2007 – 610,281) 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 52,722,987 (2007 – 48,529,192). 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.

12. 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 and to showcase the Corporation's Powerwave technology and equipment. The accounting policies of these segments are the same as those described in note 2.

Six months ended February 29, 2008	Equipment and technology \$	Oil and gas properties \$	Corporate and other \$	Total \$
Revenue	430,779	50,395	145,930	627,104
Net loss for the period	(1,113,312)	(580,718)	(451,780)	(2,145,810)
Segment assets	4,145,126	6,758,114	16,025,340	26,928,580
Capital expenditures	369,048	351,329	290	720,667

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Six Month Period Ended February 29, 2008

	Equipment and technology	Oil and gas properties	Corporate and other	Total 2007
Six months ended February 28, 2007	\$	\$	\$	\$
Revenue	52,397	99,855	205,625	357,877
Net loss for the period	(584,093)	(1,238,791)	(250,579)	(2,073,463)
Segment assets	1,708,868	5,508,163	10,227,602	17,444,633
Capital expenditures	406,099	2,735,642	-	3,141,741

	Six months ended February 29, 2008		Six months ended February 28, 2007	
Geographic Information	Revenue	Total assets	Revenue	Total assets
	\$	\$	\$	\$
Canada	575,712	22,409,331	227,202	13,141,223
United States	51,392	4,519,249	130,675	4,303,410
	627,104	26,928,580	357,877	17,444,633

During the period ended February 29, 2008, the Corporation recorded revenue from twenty-eight (2007 – nine customers). Sales in 2008 from the top three customers amounted to \$149,419, \$118,138 and \$68,288, which represented 24%, 19% and 11%, respectively of total revenue. Sales in 2007 from the top two customers amounted to \$30,819, \$17,052, which represented 9% and 5%, respectively of total revenue.

	Equipment and technology	Oil and gas properties	Corporate and other	Total
Three months ended February 29, 2008	\$	\$	\$	\$
Revenue	229,694	19,565	93,027	342,286
Net loss for the period	(497,593)	(393,296)	(236,650)	(1,127,539)
Segment assets	4,145,126	6,758,114	16,025,340	26,928,580
Capital expenditures	68,361	152,055	-	220,416

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Six Month Period Ended February 29, 2008

Three months ended February 28, 2007	Equipment and technology \$	Oil and gas properties \$	Corporate and other \$	Total 2007 \$
Revenue	37,527	39,418	92,075	169,020
Net loss for the period	(249,463)	(652,398)	(123,797)	(1,025,658)
Segment assets	1,708,868	5,508,163	10,227,602	17,444,633
Capital expenditures	181,509	1,914,351	-	2,095,860

13. RELATED PARTY TRANSACTIONS

During the period ended February 29, 2008, the Corporation had the following related party transaction:

As at February 29, 2008, principal amounts due to the Corporation by Boulder totaled \$1,937,053 (August 31, 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 as the Corporation is repaid 200% of the costs incurred, after which, production revenues will revert back to the party's original working interest proportions. All production revenue originally attributable to Boulder has been recorded against the cost of the non-participation amounts due.

On February 22, 2008, the Corporation issued 200,000 incentive stock options to directors and officers of the Corporation with an exercise price of \$1.65. These incentive stock options are set to expire five years from the date of issue on February 22, 2013. In addition, during the reporting period a director of the Corporation exercised 40,000 incentive stock options at a price of \$0.50 per share, providing the Corporation with gross proceeds of \$20,000.

14. SEASONALITY OF OPERATIONS

Certain oil field services offered by the Corporation are seasonal and related to the product offering and the geographical area in which products are offered for sale. The Corporation's product offering, in relation to oil field services, are the 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 are 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.

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Six Month Period Ended February 29, 2008

15. SUBSEQUENT EVENT

In connection with the private placements that closed on December 24, 2007 and January 31, 2008 (Note 10), and subsequent to February 29, 2008, 7,313,363 common share purchase warrants ("Warrant") were exercised at a price of \$1.25 per Warrant for gross proceeds of \$9,141,704.

In addition, subsequent to February 29, 2008, 98,518 employee incentive stock options were exercised at prices ranging from \$0.40 to \$1.76 per share for gross proceeds of \$143,402.

16. COMPARATIVE FIGURES

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