



Wavefront Technology Solutions Inc.

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|-------------------------------------|------------------------|
| <input type="checkbox"/>            | <b>Annual Report</b>   |
| <input type="checkbox"/>            | For the fiscal         |
| <input type="checkbox"/>            | year ended             |
| <input checked="" type="checkbox"/> | <b>August 31, 2009</b> |

*The following discussion and analysis of financial results should be read in conjunction with the audited financial statements and the accompanying notes for the year ended August 31, 2009 and is based on information available to December 21<sup>st</sup>, 2009. Additional information on Wavefront Technology Solutions Inc.'s (the "Corporation" or "Wavefront") is available on SEDAR at [www.sedar.com](http://www.sedar.com).*



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

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### **MANAGEMENT'S RESPONSIBILITY**

The management of Wavefront Technology Solutions Inc. ("Wavefront" or "the Corporation") is responsible for the accuracy of the information disclosed in the Management Discussion and Analysis. The interim and annual Management Discussion and Analysis of Financial Conditions and Results from Operations are also reviewed and approved by the Audit Committee of the Corporation's Board of Directors. This Management Discussion and Analysis of Financial Conditions and Results from Operations contain information available to December 21<sup>st</sup>, 2009.

### **NON-GAAP MEASURES**

Included in the management discussion and analysis are terms not defined by Generally Accepted Accounting Principles ("GAAP") in Canada and consequently are referred to as non-GAAP measures. Reported amounts may not be comparable to similarly titled measures reported by other companies.

### **OVERVIEW OF BUSINESS**

Wavefront specializes in designing and developing leading-edge techniques for oil well stimulation, secondary oil recovery and environmental groundwater remediation.

The Corporation pioneered the development of a unique technology that generates powerful fluid pulses to momentarily expand the pore structure of rock and soil, which dramatically improves liquid flow in the ground. This pressure-pulse technology creates highly uniform waves of fluid to "push" oil to extraction wells or distribute treatment chemicals to be in better contact with contaminants. The patented fluid flow process is marketed in the energy sector as Powerwave<sup>TM</sup> and in the environmental sector as Primawave<sup>TM</sup> (collectively known as the "Technology").

#### ***Powerwave***

Powerwave is a cost-effective, economically beneficial optimization technique for existing oil recovery and oil well stimulation strategies that employ injection. Powerwave can increase both oil production and reserves from existing assets. Production increases related to Powerwave have been demonstrated to far exceed minimum payback requirements.

There are two primary uses of Powerwave in the oil sector. The first is enhanced or improved oil recovery. Enhanced or improved oil recovery is an approach involving the injection of water or CO<sub>2</sub> (other fluids are also injected) into the reservoir through dedicated wells to displace by-passed oil. The injected fluids 'sweep' or 'push' by-passed oil to adjacent production wells. Potential problems associated with flood approaches include inefficient distribution of the injected water due to variable reservoir conditions, or early water breakthrough to production wells. Both of these problems can be minimized or mitigated with Powerwave. Enhanced or improved oil recovery projects tend to last the remaining productive life of the assets, which can be many years or often decades.

The second use of Powerwave is in oil well stimulations (workover). Oil well stimulations are a remedial operation performed on a producing well in order to restore or enhance productivity. In many instances a chemical is pumped into



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

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the well to stimulate a producing interval however during this operation the importance of placing the chemical correctly is often underestimated. Well stimulations can be completed in hours or days.

### *Primawave*

For environmental applications, Primawave is a highly effective method for introducing treatment remedies into contaminated underground sites, even in locations that are difficult to access.

There are currently two basic approaches for the remediation of contaminated sites. The first is ex-situ treatment, which involves the removal of the contaminated material for treatment and proper disposal. An example of a conventional ex-situ containment/remediation method used since the 1980s is known as the "pump-and-treat" method. This involves injecting groundwater in a contaminated area with the intent of driving the contaminant to production wells, where the contaminant is pumped out of the ground for treatment and proper disposal. Pump-and-treat methods tend last longer periods of time, sometimes encompassing years.

The second remediation approach is the in-situ approach, which involves treating the contaminants onsite, which involves far less disturbance to the surrounding environment than ex-situ treatments. This usually consists of some form of remedial fluid combined with a mechanical method of delivering the treatment liquid to the contaminant in the ground. In fact, up to 80% of in-situ remediation technologies are water-based and involve the application of an active agent. For example, in-situ bioremediation involves adding a carbon substrate to stimulate biological activity to remediate the contamination. In-situ methods are shorter in duration and can last hours to days per injection site.

The Corporation's business model is to create a recurring revenue stream by licensing its technology to the user community for fixed durations. In licensing the technology, the Corporation provides end users a Powerwave or Primawave system to carry out the licensed process. As such the Corporation capitalizes the Powerwave or Primawave systems. As the value proposition resides in the process, at no time are the Corporation's Powerwave or Primawave systems transferred or otherwise sold to third parties.

### **OVERALL RESULTS FROM OPERATIONS**

Currently the Corporation in managing its business and reporting structure, does so on a consolidated basis, as such, does not present its operational results on a segmented basis.

Principal benchmarks for fiscal 2009 included, (1) successful implementation of Powerwave programs; (2) based on positive field results seek expansion of current Powerwave programs; (3) target the well stimulation (workover) market; (4) begin the development of Powerwave and Primawave distribution and sales networks; (5) deploy Powerwave in an offshore oil platform; and, (6) increase Primawave usage.

In the fiscal year the Corporation had continued amassing successful Powerwave results having new and continuing water and CO2 flooding programs in locations including but not limited to Mississippi, Texas, Alberta, Alaska, Saskatchewan, California, and Michigan. Of note was the first deployment of Powerwave on an offshore platform near Long Beach, California where Powerwave is employed to improve the rate of water injection.

Although the Corporation's desire is to release Powerwave performance data from all of its current installations certain confidentiality obligations prevent such dissemination. Where the Corporation is free to disseminate Powerwave performance data it undertakes to provide such information to the potential user community and market in a timely



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

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manner. A number of Powerwave contracts announced in fiscal 2009, have yet to be installed and must still be completed. As the Corporation does not control the timing of such installations it must wait on the operator for a timeline.

After 24 months of operation in Eastern Alberta, the 3 Powerwave-driven injection patterns in the field, influencing 16 production wells, have shown a 68 per cent drop in oil production decline rate; a 240 per cent increase in oil cut (proportion of oil per barrel of produced fluid); and more than 51,700 barrels of incremental oil. Early stage results in a second Alberta program show a 16% increase in oil production. In Michigan, Powerwave increased the rate of CO<sub>2</sub> injection by approximately 100%. Positive injection results were also obtained for injection in a Mississippi CO<sub>2</sub> flood where the rate of injection improved by 27% with Powerwave. Based on these results both operators have indicated a desire to expand the Powerwave programs.

Following the Corporation's decision to terminate the license and collaboration agreements with Halliburton, the Corporation embarked on re-branding its single well stimulation technology offering with the Powerwave Odyssey tool. The Odyssey was jointly developed with Halliburton with all intellectual property rights being held by the Corporation. The Odyssey can be utilized for both coil tubing and jointed pipe applications and will form the basis of the Corporation's technology offering for well stimulation including those programs announced subsequent to the year end with Pemex.

Powerwave is a proven and cost-effective method for increasing oil production with existing infrastructure. Presently, the Corporation offers Powerwave based on book rates of \$6,000/month for long-term Powerwave floods and \$4,000/day for Powerwave single well stimulations, less negotiated discounts that vary from client to client. As is typical in the industry discounts are almost always provided to book rates and may also include additional rapid installation discounts and other inducements to have Powerwave systems deployed in oilfields with the strategy of have further commercialization occur through the expansion across the oilfield then across other assets owned or operated by the client.

Powerwave and Primawave results are being recognized by prospective clients around the world. During the fiscal year the Corporation sought to establish distribution and sales channels for Powerwave and Primawave respectively. To this end the Corporation established relationships for Powerwave in California, Mexico and Asia Pacific, and for Primawave in Colorado and Australia. In Mexico, a significant opportunity with Pemex was announced subsequent to the year end where Pemex will undertake up to 13 Powerwave well stimulations and up to 36 Powerwave-drive waterflood injection wells. In Asia Pacific, the Corporation continues discussion on the use of Powerwave with various National Oil Companies and international oil producers operating in Indonesia and Malaysia.

As at year end the Corporation had 80 confirmed Powerwave licenses with 30 clients and an additional 47 licenses pending execution with new clients. Subsequent to the fiscal year end the Corporation added 77 Powerwave licenses inclusive of the 36 licenses related to the Pemex Letter of Intent and the initial larger roll-out of a minimum of 35 (upwards of 50) Powerwave systems with the Eastern Alberta client for an aggregate total of 157 Powerwave licenses with 33 clients. The Corporation remains focused on deploying all licensed systems; closing the 47 pending Powerwave agreements; establishing new opportunities in new markets, and expanding Powerwave across the numerous assets owned and/or operated by clients.

Primawave continued to show that it is a highly effective method for enhancing in situ remediation by increasing both fluid injection delivery rates and radius of influence of the remedial fluid; and, minimizes or eliminates remedial fluid surfacing. In a highly successful New Jersey program Primawave helped decrease the number of injection points required at the site by 75 per cent from a planned 483 injection points to 120, reducing time in the field by more than one month. The magnitude of this success as well as other positive results has led various consulting companies in Finland, Denmark, and the Netherlands to plan Primawave programs in calendar 2010. Subsequent to the year end the Corporation, through its Primawave certified licensee, Coffey Environments, also



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

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successfully implemented Primawave with an international oil producer to aid in the remediation of a contaminated site. Based on this result the Corporation anticipates further work to be undertaken by the end user across its many sites undergoing remediation.

### Acquisition of Predator Pumps Ltd.

Effective January 31, 2009, the Corporation acquired (the "Acquisition") all of the issued and outstanding shares of Predator Pumps Ltd. ("Predator"), a privately-held Alberta company that provides specialized pumping equipment and services for use in heavy oil wells. Total consideration for the Acquisition was announced at \$750,000 (the "Purchase Price") to be payable in cash. The originally announced Purchase Price was reduced by \$49,324 due to current asset level maintenance conditions which the vendors did not maintain. The Acquisition agreement also contemplates contingent consideration of \$150,000, also payable in cash, subject to the maintenance of certain sale performance conditions one year from the closing of the Acquisition. Subsequent to the Acquisition, the Corporation repaid Predator's long-term indebtedness totaling \$111,807.

Predator was involved in the same tubing pump and bailer markets as Wavefront Sand Pumps & Rentals Ltd. The Acquisition of Predator was completed in an effort to expand the Corporation's asset base of tubing pumps and bailers and to gain greater market presence, with an objective of expanding the market of the tubing pump and bailer beyond the local western Canadian market.

### Revenues

Revenues for the year ended August 31, 2009 were \$1,616,601. This is a decrease of \$135,961 over the comparative period in 2008 that recognized revenues of \$1,752,562. The decrease in revenues is primarily a result of a decrease in the amount of interest earned.

During the fiscal year the Corporation recognized production and operator revenues of \$177,821 (2008 - \$216,832) related to the Rogers County and Rodney South ventures. Of the production and operator revenue recognized, \$63,794 (2008 - \$76,129) relates to the Rodney South Venture, whereas \$114,027 (2008 - \$140,703) relates to Rogers County.

Production revenue from Rogers County decreased by 10,521 to \$105,344 (2008 - \$115,865). The decrease in production revenue from Rogers County is due to decreases in both production volume and gross commodity prices received.

During the fiscal year service revenue and royalties related to the tubing pumps, bailer and surge cup rentals market totalled \$611,564 compared to the \$763,357 for year ended August 31, 2008. Despite the Predator Acquisition (see "Acquisition of Predator Pumps Ltd." on page 3 for further discussion), these revenues were negatively affected in the current year by government regulations (i.e., the elimination of income trusts in Canada, and increasing royalty rates in Alberta, Canada) and the down turn in the economy.

Revenues related to Powerwave and Primawave however, were up dramatically as throughout the fiscal year as the Corporation was successful in securing additional Technology licenses and deploying the Technology. It is expected that the revenue associated with Powerwave and Primawave licenses will continue to grow as more deployment occurs, clients commit to expanding the Technology and the Corporation secures additional Technology licenses.



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

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Geographically, \$1,337,539 (2008 – \$1,610,852) in revenue was generated in Canada, and \$279,062 (2008 - \$141,710) from the USA.

### Direct Expenses

Direct expenses related to service revenue and royalties decreased to \$421,054 (or 37.0% of gross services and royalty revenue) compared to \$734,451 (or 70.4% of gross service and royalty revenues) for fiscal 2008. The current year decrease in direct costs relates principally to the shifting of the product mix to include a greater weighting of Powerwave and Primawave revenues versus the more cost intensive product lines of tubing pumps, bailer and surge cup rentals market performed in the heavy oil sector. This shifting of the product mix is expected to continue as more Powerwave and Primawave contracts are installed.

### Other Expenses

Other expense for the period amounted to \$9,110,323, compared to \$7,963,290 in 2008. The increase in these expenses of \$1,147,033 was principally a result of the following changes:

- i) General and administrative expenses, totalling \$4,135,601, comprised the largest increase in operating expenses. The following table provides comparative details for the general and administrative expenses.

	2009	2008
	\$	\$
Wages, employee benefits, and contract employees	2,340,499	1,853,817
Professional fees	438,802	579,807
Office	702,458	502,497
Repairs and maintenance	262,420	160,058
Vehicle	194,807	189,107
Consultants	184,973	139,327
Bad debts	5,988	2,429
Miscellaneous	5,655	7,911
	<b>4,135,601</b>	<b>3,434,953</b>

The increases in general and administrative expenses primarily related to the following:

- An increase in “wages, employee benefits, and contract employees” expense of \$486,682 that can be attributed to an increase in wage rates and numbers of staff. For fiscal 2009, the Corporation employed 32 full-time employees and 3 casual / co-op student employees (2008 - 27 full-time employees and 4 casual / co-op student employees). The increase in employees was focused in the areas of increased sales personnel and personnel required for Powerwave and Primawave installations as well as client and licensee training. Additionally, less direct wages were allocated to direct costs, as the product mix has been shifting to a heavier weighting in Powerwave and Primawave based revenues versus the more labour intensive tubing bailer and sand pumps product lines. The Corporation's business model is not to be a services company, thus, moving forward, it is believed that, that less labour will be allocated to direct costs as client firms will install and operate the Powerwave and Primawave systems.

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

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- An increase in “office” expenses of \$199,961 relates to the establishment of a sales office in Calgary, Alberta, increased insurance rates as well as the fabrication of Technology test facilities and increased warehouse space for Powerwave and Primawave systems in Edmonton, Alberta. Additionally, during the reporting period the Corporation moved to larger facilities in Texas, so that it would have a US based warehouse and stage facility for Powerwave and Primawave applications.
- An increase in “repairs and maintenance” expense of \$102,362 related to various product line system repairs that were not charged to job and did not relate to the betterment of those systems. Of the repairs and maintenance expense totalling \$262,420 for the reporting period, \$114,806 relate to the maintenance of the Rogers County oilfield.

Additionally during the fiscal year the Corporation built an in-house testing facility for Powerwave and Primawave quality assurance. Included in “repairs and maintenance” expenses for this period are the period expenses associated with operating the testing facility.

- A decrease in “professional fees” of \$141,005 that can be attributed to higher fees in the prior year related to the installation of a new accounting software, and patent litigation fees where the Corporation initiated and settled action against Applied Seismic Research Corporation.
- ii) During the first three months of the reporting period there was a precipitous drop in commodities prices, which in general has affected the valuation of resource properties across the energy sector. The drop in commodity prices was viewed by the Corporation as a triggering event, causing it to re-assess the fair value of the Corporation’s oilfield related assets, i.e., Rogers County mineral rights and associated oilfield assets, and the South Rodney Net Over-riding Royalty Rights. As a result, the Corporation realized a non-cash write-down of its Rogers County oilfield property, plant and equipment and non-participation amounts by \$1,133,936 and the Royalty Rights by \$555,212 (see Assets and Liabilities, and Transaction with Related Parties for further discussion). The cost centre impairment tests completed at August 31, 2009 did not indicate that additional impairment losses be taken for either Rogers County mineral rights and associated oilfield assets, and the South Rodney Net Over-riding Royalty Rights.

Given the volatility in the financial and commodity markets, management choose to use the quoted market values of commodity prices as the most indicative benchmarks for oil prices over the life of the assets. The calculated amounts to be written down, and the resulting carrying value of the Rogers County and the South Rodney Farm-in assets, may not be indicative of the actual values. Additionally, given the volatility in the financial and commodity markets, the Rogers County and the South Rodney Farm-in assets may be subject to future write-downs.

- iii) At August 31, 2009, the Corporation completed its annual goodwill impairment test, which resulted in a non-cash goodwill impairment of \$247,605 for the year (2008 - \$nil). Several factors led to the impairment including the slowdown in the economy and worsening overall market conditions, in particular oil and gas activities, and a reduction in capital spending in the oil and gas sector which impacts the amount of future work/projects awarded to the corporation. The calculated amounts to be written-down, and the resulting carrying value of the Goodwill, may not be indicative of the actual value.
- iv) An increase in “stock-based compensation” expenses of \$354,131, which can be attributed to the increased volatility associated with the Corporations share price.



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

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- v) An increase in "selling, marketing, and travel" expense of \$223,870 that relates to increased activity and resulting increase in the size of the Corporation's Powerwave and Primawave sales force and operating at multiple office locations across Canada and the United States. Additionally the Corporation has been pursuing the use of and agents for Powerwave in Southeast Asia, Europe and Mexico, and for Primawave in Southeast Asia and Europe.
- vi) Additional other expenses resulted in expense increases amounting to \$77,543, and relate to the following:
- An increase in "amortization, depreciation, depletion and accretion" expenses of \$135,826. Of the increase, \$85,284 relates to the amortization of the asset related Rogers County oilfield, which was not amortized in the prior year.
  - A decrease of "listing and public company fees" of \$128,423 which relates to the associated expenses related to level of general public market activity as result of the volatility of the financial markets. It is expected that the expenditure levels will increase in forthcoming quarters to improve secondary market awareness of the Corporation.

### Net Loss and Loss Per Share

The basic and diluted net loss, before the write-down of property, plant and equipment, intangible assets and goodwill for the year ended August 31, 2009 was \$5,978,024 (\$0.084 per share), compared to \$4,799,276 (\$0.084 per share) in 2008. The basic and diluted net loss, of these one time non-cash expenses pertaining to the write-down of property, plant and equipment, intangible assets and goodwill for the year ended August 31, 2009 was \$1,936,753 (\$0.027 per share), compared to \$2,145,903 (\$0.027 per share) in 2008.

The basic and diluted net loss for the year ended August 31, 2009 was \$7,914,776 (\$0.11 per share), compared to \$6,945,179 (\$0.11 per share) in 2008.

### Operating Cash Flows

During the reporting period ending August 31, 2009, the total cash used in operations amounted to \$4,774,749. Expenses not affecting the cash used in operations and arises from the following non-cash items:

Items not affecting cash	
Amortization, depreciation and accretion	738,867
Write-down of PP&E	1,133,936
Write-down of intangible	555,212
Gain (loss) on disposal of property, plant and equipment	17,322
Write-down of goodwill	247,605
Stock based compensation	749,273
	<hr/>
	3,442,215

These non-cash amounts represent 36.05% of total expenditures for the fiscal year. In addition to the above non-cash expenses, the net change in non-cash working capital, which is the relative changes in accounts receivable, inventory, prepaid expenses, and accounts payable and accrued liabilities amounted to \$302,188.



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

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As well, and in addition to the above, included in the foreign exchange gain is \$143,792 that relate to the translation of the US subsidiary.

Given the Corporations working capital positions (see Liquidity section below), the Corporation believes it has sufficient working capital to meet current strategic objectives.

### LIQUIDITY AND CAPITAL RESOURCES

#### Assets and Liabilities

Total assets decreased by \$7,433,686 to \$24,495,041 from the prior year end. The decrease was primarily due to a decrease of \$7,099,582 in cash that was used to fund working capital, the manufacture of Powerwave and Primawave assets and the Predator Acquisition (see "Acquisition of Predator Pumps Ltd." on page 3 for further discussion). Assets were also affected by the Corporation's Acquisition of Predator (which increased its property, plant and equipment by \$213,490), the manufacturing of Powerwave and Primawave systems to meet the tooling requirements of the agreements that the Corporation entered into, and its decision to write-down its oilfield related property, plant and equipment and Royalty Rights.

During the reporting period ended August 31, 2009, accounts receivable decreased by \$222,311, while prepaid expenses increased by \$126,705. These changes reflect timing differences in incurring installation expenses and collecting receivables and are directly related to increase Powerwave contacts and financial accounting policy of recognizing Powerwave revenues and direct costs equally over the term of the contracts.

As at August 31, 2009 the Corporation held a 40% working interest in an aggregate of 780 acres, consisting of four separate oilfield leases, and a 90% working interest in an aggregate of 580 acres, consisting of four separate oilfield leases in Rogers County, Oklahoma. During the first quarter ended November 30, 2008, there was a material decline in commodity prices, so the Corporation recorded a write-down of its Rogers County oilfield related assets and non-participation amounts by \$1,133,936 (August 31, 2008 – \$2,095,242) (see "Oilfield Property, Plant and Equipment" on page 15 for further discussion). No write-down was provided for in the fourth quarter ended August 31, 2009.

The Corporation also recorded a write-down of its Royalty Rights associated with the South Rodney Farm-in Agreement of \$555,212 (August 31, 2008 – \$nil) in the first quarter ended November 30, 2008. No write-down was provided for in the third quarter ended August 31, 2009.

Additional changes to assets include the increase in goodwill by \$410,853 that relates to the Acquisition of Predator (see "Acquisition of Predator Pumps Ltd." on page 3 for further discussion). However, with the Corporation's annual goodwill impairment test effective August 31, 2009, Wavefront recognized a goodwill impairment of \$247,605 for the year. Several factors led to the impairment including the slowdown in the economy and worsening overall market conditions, in particular oil and gas activities, and a reduction in capital spending in the oil and gas sector which impacts the amount of future work/projects awarded to the corporation.

Given the volatility in the financial and commodity markets, management choose to use the quoted market values of commodity prices as the most indicative benchmarks for oil prices over the life of the assets. The calculated amounts to be written down, and the resulting carrying value of the Rogers County, the South Rodney Royalty Rights and goodwill, may not be indicative of the actual values. Additionally, given the volatility in the financial and commodity markets, the Rogers County and the South Rodney Farm-in assets may be subject to future write-downs.



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

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The Corporation holds a one hundred (100%) percent working interest in an aggregate of 1,679 acres, consisting of multiple oilfield leases in Young County, Texas that was acquired in fiscal 2007 for total consideration of \$179,868. Additionally, during fiscal 2007, the Corporation acquired a fifty (50%) percent working interest in an aggregate of 500 acres, located in north central Taylor County, Texas for total consideration of \$39,768.

The acquisitions of oilfield leases were originally to allow the collection of data, over a range of different geological conditions that can be audited by potential third party Powerwave customers. As clients collect their own Powerwave data and results and there is a greater adaptation of the Powerwave technology, the strategic importance of the Corporation's oilfield assets diminishes.

Total liabilities decreased by \$605,582 from the prior year-end to \$873,042.5. This was principally due to decreases in accounts payable and accrued liabilities by \$458,335 to \$610,224.

### **Liquidity**

As at August 31, 2009, the Corporation had working capital of \$15,411,660. The Corporation believes that its working capital position will continue decline despite having a significant increase in the number of Powerwave contracts in-hand, as Wavefront cannot control or dictate the installation schedules. It is believed that, as each client experiences positive Powerwave results, further uptake of the technology will require the Corporation to increase its Powerwave inventories.

The Corporation did not default nor was it in arrears on any lease interest or principal payments or loan payments.

### **Financings**

In the current year 695,000 incentive stock options were exercised at prices ranging from \$0.44 to \$0.55 for gross proceeds of \$337,400. Of the incentive stock options exercised, 585,000 incentive stock options were exercised by directors of the Corporation at prices ranging from \$0.44 to \$0.55 for gross proceeds of \$282,400.

Liquidity risk associated with financial instruments is generally related to accounts receivable and non-participation amounts due. The liquidity risk associated with accounts receivable is believed to be low based on the Corporation's history and the customers generally serviced. The liquidity risk associated with the non-participation amounts due however, is related to the production with the initial mineral rights of the Roger County venture.

The Corporation did not default nor was it in arrears on any lease interest or principal payments or loan payments.

### **Capital Resources**

Currently, and in addition to the Contractual Commitments (noted below), the Corporation has the following commitments for capital expenditures:

In a prior year, the Corporation entered into a Farm-in agreement with Greentree to develop Greentree's Rodney South oilfield lease. Under the Farm-in agreement, the Corporation committed to providing \$2.25 in capital for the oilfield's development. As at August 31, 2009, the Corporation has paid Greentree \$2,168,834 (August 31, 2008 – \$2,168,834) and may be obligated to the remaining balance of up to \$81,166 (August 31, 2008 – \$81,166). Given



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

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the Rodney South oilfield has been developed, it is believed that no further development and capital commitment will be require of the Corporations. The related asset is classified as finite life intangible asset.

The acquisition of the fifty (50%) percent working interest in the Taylor County oilfield also implies that the Corporation will be responsible for its proportionate share of the oilfield's development costs once a development plan has been made and agreed to. To date no costs or development has yet to occur on these leases, but the Corporation is committed, subject to mutual agreement on the development plan, to a maximum of \$1.35 million in development costs for the oilfield. The resulting asset will be a component of oilfield property, plant and equipment.

In addition, and in accordance with the Corporation's strategic plan, cash resources will be required for the following:

- To continue to build an inventory of Powerwave and Primawave systems for deployment to external clients.
- To support the marketing efforts with, and to train all licensees on, the implementation of Powerwave and Primawave.
- To design and build additional Powerwave and Primawave systems to allow the Corporation to expand the applications of its technology.

There are no known trends or expected fluctuations in the Corporation's capital resources.

As of December 21, 2009, there are no amounts owed in respect of the lines of credit and the Corporation had \$14,177,407 of cash on hand. Of the cash on hand, the Corporation has \$13,814,436 in Guaranteed Investment Certificates ("GIC") on deposit with TD Canada Trust, a Canadian chartered bank. The investment in the GIC is for a one year term, maturing on March 1, 2010, with a guaranteed interest rate of 0.85% but with the flexibility of an early cashing options. Credit risk on the GIC investment is linked to the insurance coverage limits as prescribed by the Canadian Deposit Insurance Corporation and that of TD Canada Trust.

### CONTRACTUAL COMMITMENTS

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

As at May 31, 2009	Payments Due by Period				
	Total	Less than 1 Year	1 – 3 Years	3 – 5 Years	More than 5 Years
Shareholder loans	\$ 75,470	\$ 75,470	\$ -	\$ -	\$ -
Operating lease obligations	167,989	-	167,989	-	-
Greentree Gas and Oil royalty rights	81,166	81,166	-	-	-
	\$ 324,625	\$ 156,636	\$ 167,989	\$ -	\$ -

Management is of the opinion that its working capital position of \$16,444,849 as at May 31, 2009 is sufficient to cover its current commitments and operations for the forthcoming fiscal year.



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

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The majority of expenditures related to Greentree Farm-in have been incurred. Management does not expect further expenditures related to this project in fiscal 2010 as no further development of the Rodney South oilfield lease has been agreed to. All future expenditures and investments in capital assets and projects will be governed by the Corporation's working capital position throughout the year.

### OFF-BALANCE SHEET ARRANGEMENTS

The Corporation has no off balance sheet arrangements.

### TRANSACTIONS WITH RELATED PARTIES

- i) During the year ended August 31, 2009, insiders of the Corporation exercised 585,000 incentive stock options at prices ranging from \$0.40 to \$0.50 for aggregate consideration \$282,400.
- ii) During the year ended August 31, 2009, insiders of the Corporation were issued 500,000 incentive stock options at a price of \$0.54, and expire on January 5, 2010. Additionally, and subsequent to August 31, 2009, insiders of the Corporation were issued 260,000 incentive stock options at a price of \$0.72, and expire on September 4, 2013. The incentive stock options are subject to the Corporation's incentive stock option plan.
- iii) In connection with the Rogers County oilfield (see "Oilfield Property, Plant and Equipment" on page 15 for further discussion), amounts recorded under non-participation amounts totalled \$463,105 (2008 – \$1,085,773). These amount arise as a result of Boulders election to exercise its non-participations rights under the Joint Operating Agreement, under which, 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 first quarter of fiscal 2009, the Corporation reviewed the carrying amount of its oilfield property, plant and equipment and non-participation amounts related to the Rogers County venture and, whether there were indicators, events or circumstances that may have caused impairment since the most recently completed fiscal year. As a result of the review, a detailed impairment calculation was completed and the Corporation realized a write-down of its non-participation amounts by \$531,615 (2008 - \$1,021,808). 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.

### PROPOSED TRANSACTIONS

At the time of the report the Corporation has no proposed transaction.

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

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### OUTLOOK

Although economic conditions are forecasted to improve, the risk of volatility in the commodity markets remains and there will be a certain amount of uncertainty for the Corporation's efforts to commercialize Powerwave in the oil sector. Additionally, the downturn in the US economy over the past year has and continues to have negative impact on Brownfield (abandoned industrial sites with environmental contamination) redevelopment and addressing property transfer liabilities which represent two large markets for environmental groundwater remediation. Given an up-swing in US real estate activity is indeterminate Primawave usage in these markets is not anticipated to grow significantly. The Canadian Association of Oil Well Drilling Contractors forecast a slight decrease in drill activity and drilling rig utilization for calendar 2010. This is the second consecutive year in which drill activity and drilling rig utilization has been forecasted to decrease and it is anticipated that continued decreases in drill activity may affect the Corporations pump and tubing bailer rental business in western Canada.

The Corporation will focus its efforts in fiscal 2010 on the following:

- i) Work with clients to successfully deploy the existing backlog Powerwave systems;
- ii) Leverage the positive results of Powerwave to expand the use of the Technology with current clients across their entire operations as well as adding new clients across North America;
- iii) Bring to fruition the 47 pending Powerwave licenses and have associated Powerwave systems deployed;
- iv) Commence an aggressive strategy to penetrate the North American single well workover / stimulation market;
- v) Carry on the development of the international Powerwave market through direct sales and a network of third-party distributors;
- vi) Continue to expand the certified Primawave service provider program including the addition of providers in the European market;
- vii) Build-up the market for the Corporations Shark pumps; and,
- viii) Control costs

Successfully achieving the above efforts will move the Corporation towards positive income and cash flow position. The timing of positive income and cash flow will be dependent upon the installation rate of the existing and future Powerwave contracts, which is beyond the Corporation's control or influence.

### RISK AND UNCERTAINTIES

*No History of Earnings* - The Corporation is an early stage development company and does not yet have a history of earnings, profit or return on investment. There is no assurance that it will earn sufficient revenues to operate profitably or provide a return on investment in the future. The Corporation has no intention for the foreseeable future to pay dividends.

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

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*Need For Additional Financing* – The Corporation may require additional financing in order to make further investments in the technology or to fund unanticipated demand, to take advantage of unanticipated opportunities, to fund the acquisition of additional oilfield assets, or to fund the Corporation through a slower than anticipated scale-up to profitability. In addition, the Corporation may choose, in an attempt to expedite the achievement of market acceptance and/or to increase the yield from the Technology, to become engaged in the upfront financing of certain Powerwave or Primawave jobs in return for a share of the benefits of the process over time. There can be no assurance that additional financing will be available to the Corporation on acceptable terms, or at all. Such financing, if available, might have the effect of diluting the holdings of existing shareholders.

*Market Acceptance* – The Technology acceptance will be dependent on the Corporation's consistently demonstrating the benefits of it in the field and under a variety of conditions. There can be no assurance that commercial acceptance of the Corporation's products and services will be achieved within a reasonable timeframe and with the financial resources available to the Corporation now or in the future.

*Technology Risks* – Although the results of research, development, and field installations have demonstrated the Technology to be viable, there is no guarantee that the Corporation's Powerwave or Primawave will be successful or be applied successfully in all cases. Although the Corporation believes there will be many applications for its products and services and that the anticipated market will be receptive and expand, these beliefs may prove to be incorrect for a variety of reasons, including competition from other products and the degree of commercial viability of its products. The possibility of a Powerwave or Primawave project not providing the intended benefits (albeit, believed by Management to be manageable and small), due to unforeseeable factors, could also impede the acceptance of the Technology by the market place. Any failure of the Technology process to generate the intended benefits even in isolated circumstances could have an adverse effect on or slow, market acceptance.

*Oil Development and Production Risks* – Inherent in the development and production of oil reserves are risks, among others, of drilling dry holes, encountering production or drilling difficulties or experiencing high decline rates in producing wells and reservoir performance uncertainties. In addition, a major market risk exposure is in the pricing applicable to oil production. Realized pricing is primarily driven by the prevailing worldwide price for crude oil and spot prices applicable to the Corporation's oil production. Prices for oil production have been and remain volatile and unpredictable.

The corporation uses, if available, independent reserve estimates and commodity oil prices as a basis to determine the future cash flows to perform the ceiling test. If oil prices decline significantly, even for a short period of time, it is possible that a non-cash write-down of oil property and related assets could occur under the full-cost accounting method allowed by the Canadian Institute of Chartered Accountants. Additionally, given the volatility of the commodity markets, the selection of commodity price may not be indicative of the fair values and may affect amounts to be written down and the carrying value.

*Rapid Changes / Competition* – Other companies have developed, and may be developing, alternative technologies faster than the Corporation. Such companies may develop products that are as, or more, effective than those developed by the Corporation and there can be no assurance that research and development by others will not render the Corporation's technology obsolete or non-competitive.

*Volatile Commodity Markets* - The marketability of the Corporation's products and services could be affected, directly or indirectly, by significant declines in oil prices. The Corporation believes that there would have to be a fairly major decline before the incremental cost / benefit of the Technology would be rendered unappealing.

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

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*Government Regulations / Policy* – The Corporation may be subject to, and adversely affected from time to time by changes in regulation and policy in the countries it is, or plans to be, operating in and such factors may create delays in project procurement and implementation that may result in the need for additional funding.

*International Business* – The Corporation undertakes business internationally. Securing of such business introduces currency risks, credit risks, political risks and other risks inherent to conducting business internationally. There can be no assurance that steps taken by management to address these risks will eliminate all adverse affects and, accordingly, the Corporation may suffer losses.

*Management of Growth and Key Personnel* – The Corporation's anticipated growth and expansion into new geographic areas and, ultimately, new applications for the Technologies processes, will require additional management expertise and will place increased demands on the Corporation's resources and management with respect to recruiting, training, budgeting, scheduling and technical skills. These demands will require the addition of new management and technical personnel and the development of additional expertise by existing personnel. A shortage of, or failure to retain, such personnel or develop or acquire the expertise could adversely affect prospects for the Corporation's success.

*Patents* – The Corporation's success will depend, in part, on its ability to enforce and defend its patents, maintain trade secret protection and operate without infringing on the proprietary rights of third parties or having third parties circumvent the Corporation's rights. The Corporation has received five patents, and is actively pursuing applications for broader international patent protection. Furthermore, there can be no assurance that others will not independently develop similar products, which duplicate any of the Corporation's technology or products or, if patents are issued to the Corporation, design around those patented products developed by the Corporation. The Corporation will however, vigorously defend its patents and any intellectual property.

*Conflicts of Interest* - Directors and officers of the Corporation may serve as directors of, or have shareholdings in, other reporting or private entities. To the extent that such other companies or entities may participate in ventures in which the Corporation may participate, the directors or officers of the Corporation may have a conflict of interest in negotiating and concluding terms respecting the extent of such participation. The laws of Canada, applicable to the Corporation, provide that the directors of the Corporation must act honestly, in good faith and in the best interests of the Corporation in resolving any conflicts that may arise, and all directors of the Corporation are aware of these fiduciary responsibilities. In determining whether or not the Corporation will participate in a particular venture, the directors will primarily consider the degree of risk to which the Corporation may be exposed, its financial position at that time and, depending on the magnitude of the venture and the absence of any disinterested directors, whether or not to subject any ventures in question to the shareholders of the Corporation for their approval.

*Reliance on Third Parties and Future Collaboration* – The Corporation has, and is anticipated to enter into, various arrangements with collaborators, licensors, licensees and others for the research, development, testing, manufacturing and marketing of its products and services. There can be no assurance that the Corporation will be able to establish such collaborations on favorable terms, if at all, or that its current or future collaborative arrangements will be successful.

*Product Liability, Warranties and Uninsured Risks* – The sale of products and services may expose the Corporation to warranty costs or other potential liability resulting from such use. Although product liability insurance is currently maintained, the obligation to pay a claim in excess of insurance could have a material adverse effect on the business, financial condition and future prospects of the Corporation.

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

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*Environmental Matters* – Currently the Corporation supplies and licenses oilfield and environmental remediation products and services therefore, there is the possibility that it will be subject to federal, provincial and local laws and regulations regarding the environment. Although management believes its safety procedures are appropriate, the risk of offence or liability cannot be completely eliminated. Moreover, there can be no assurance that the Corporation will not be required to incur significant costs to comply with laws and regulations in the future. The acquisition of mineral rights however, will expose the Corporation to those environmental, plugging and abandonment liabilities associated with any other oil producer.

### CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Corporation's financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include estimates that reflect management's estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and revenue and expenses for the period reported. Estimates are based upon historical experience and various other assumptions that reflect management's best judgments. These estimates are evaluated periodically and form the basis for making judgments regarding the carrying values of assets and liabilities and the reported amount of revenue and expenses. Actual results could differ from these estimates.

The significant accounting policies that are believed to be the most critical in fully understanding and evaluating the reported financial results are described below. Significant accounting policies are disclosed in Note 2 of the notes to the audited consolidated financial statements.

#### Revenue recognition and unearned revenue

Revenue is recognized when products or services have been delivered to and accepted by third party customers. Amounts received from customers in advance of products or services being provided are recorded as unearned revenue when received. 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 or technology fees are recognized on a percentage of completion bases 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 project loss is recognized immediately.
- iii) Revenue associated with the production and sale of crude oil where the Corporation has working interest in oilfields is recognized in same period as when the title passes to third parties.

#### Oilfield Property, Plant and Equipment

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-



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

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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 totaling \$483,909 (2008 – \$1,003,695) 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 rights in the Joint Operating Agreement. As at August 31, 2009, amounts recorded under non-participation amounts totaled \$463,105 (2008 – \$1,085,773). 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.

In connection with the Rogers County mineral rights owned by the Corporation, the Corporation has capitalized and included in its proportionate share operating expenses and oil well development costs. As the operator of the Rogers County oilfield, the Corporation is responsible for 100% of all operating and development costs. The non-operating partner's, Boulder, proportionate share of oilfield development costs are recorded as non-participation amounts. Till such time that the Corporation is repaid 200% of the development and operating costs incurred on behalf of Boulder, the Corporation recognizes 100% of revenue and expenses, and amortizes the non-participation amounts is amortized based the characteristics of the underlying asset that being the Rogers County oilfield.

During the first three months of the reporting period there was a precipitous drop in commodities prices, which in general has affected the valuation of resource properties across the energy sector. The drop in commodity prices was viewed by the Corporation as a triggering event, causing it to re-assess the fair value of the Rogers County mineral rights and associated oilfield assets. As a result, the Corporation realized a non-cash write-down of its Rogers County oilfield property, plant and equipment and non-participation amounts by \$1,133,936. The cost centre impairment tests completed at August 31, 2009 did not indicate that additional impairment losses be taken for Rogers County mineral rights and associated oilfield assets. The calculated amounts to be written down, and the resulting carrying value of the Rogers County mineral rights and associated oilfield assets, may not be indicative of the actual values. Additionally, given the volatility in the financial and commodity markets, the Rogers County mineral rights and associated oilfield assets may be subject to future write-downs.

Despite the decision to write-down the Rogers County assets, management is of the belief that assets provided strategic value to the Corporation in that it lead directly to the commercial contracts that the Corporation now enjoys.

Investments in unproved mineral rights associated with Young County and Taylor County are not amortized until reserves associated with the project can be determined or until impairment occurs. The cost centre impairment tests completed at August 31, 2009 did not indicate that impairment losses be taken for Young County and Taylor County mineral rights. No depletion or depreciation of the oilfield mineral rights has been recorded at August 31, 2008.

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

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### 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. 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 unit-of-production methods and are to be included in the depletion and depreciation in the consolidated statement of loss and deficit. Unit-of-production requires that proved reserves associated be determined, as such no amortization of the asset retirement cost has been recorded at August 31, 2009.

### Intangible Assets

In connection with the Farm-in Agreement the Corporation entered into with Greentree Gas and Oil Ltd. to develop Greentree's Rodney South oilfield lease, the Corporation has capitalized its investment in the Net Over-riding Royalty and the associated installation costs associated with the supply of its Powerwave technology.

The resulting asset is classified as finite life intangible asset is amortized based the characteristics of the underlying asset that being an oilfield. The Corporation thus, amortizes the finite life intangible asset based on the independent reserve report provided by Greentree.

During the first three months of the reporting period there was a precipitous drop in commodities prices, which in general has affected the valuation of resource properties across the energy sector. The drop in commodity prices was viewed by the Corporation as a triggering event, causing it to re-assess the fair value of the Net Over-riding Royalty Rights. As a result, the Corporation realized a non-cash write-down of its Net Over-riding Royalty Rights by \$555,212. The cost centre impairment tests completed at August 31, 2009 did not indicate that additional impairment losses be taken for Net Over-riding Royalty Rights. The calculated amounts to be written down, and the resulting carrying value of the Net Over-riding Royalty Rights, may not be indicative of the actual values. Additionally, given the volatility in the financial and commodity markets, the Net Over-riding Royalty Rights may be subject to future write-downs.



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

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### **CHANGES IN ACCOUNTING POLICIES**

The changes in accounting policies and future accounting changes not yet applied are disclosed in the notes to the audited consolidated financial statement for the year ending August 31, 2009.

#### **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. The Corporation believes that the revised section will not have a material effect on our financial position or results of operations.

#### **Business Combinations**

The CICA issued CICA Handbook Section 1582 "Business Combinations", Section 1601 "Consolidated Financial Statements", and Section 1602 "Non-Controlling Interests", which superseded Sections 1581 "Business Combinations", and Section 1600 "Consolidated Financial Statements".

Section 1582 establishes standards for the accounting for a business combination. This Section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011.

Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. Both sections apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011.

Earlier adoption is permitted as of the beginning of a fiscal year. All three sections must be adopted concurrently.

#### **International Financial Reporting Standards**

On April 24, 2006, the Accounting Standards Board ("AcSB") of Canada announced its plan to adopt the International Financial Reporting Standards ("IFRS"), previously known as International Accounting Standards, replacing Canadian General Accepted Accounting Principals ("GAAP"), with adoption on January 1, 2011. IFRS requires the application of IFRS retrospectively except for a small number of specific exceptions and exemptions provided for entities adopting IFRS for the first time. In order to reflect the cumulative impact from the retrospective adjustments required to reflect the difference between GAAP and IFRS, the Corporation will be required to prepare an opening IFRS balance sheet with all cumulative adjustments for the year end August 31, 2010. This opening IFRS balance sheet will need to be audited since it will be the opening position of Wavefront when it reports under the converged IFRS standards. The Corporation's first financial reporting in accordance with IFRS will be its first quarter ending November 30, 2011, with the first set of audited, IFRS compliant, consolidated financial statements required for the Wavefront's year ended August 31, 2012.

IFRS will not only impact the presentation and disclosure of item in the financial statements of the Corporation but also the calculation of future profits and the measurement of balance sheet items. In addition, there are a number of

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

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wider business issues which will need consideration and careful planning including managing shareholders' expectations, employee training, information systems and internal controls.

Given the level of information gathering required as part of the process, during the fiscal year the Corporation worked with Deloitte & Touche LLP to identify and performed a detailed analysis of differences between Canadian generally accepted accounting principle and IFRS in the major risk areas to the Corporation's financial statements. Further the Corporation has substantially looked at IFRS policy exemptions, drafted its IFRS accounting policy choices and assessed the impact of its policy choices. In finalizing its IFRS accounting policy choices and exceptions, it will continue to work with Deloitte & Touche LLP, and then with its auditors, Pricewaterhouse Coopers LLP, to ensure agreement with the policy selection and adaptation and whether the policy choices will be applied on a retrospective or a prospective basis.

It is expected that the Corporation will finalize its analysis of differences between Canadian generally accepted accounting principle and IFRS, draft its IFRS accounting policy choices and be able to perform a calculation of IFRS differences related to IFRS policy adaptation in fiscal 2010.

### **FINANCIAL AND OTHER INSTRUMENTS**

The Corporation's significant financial and other instruments consist of accounts receivable, accounts payable and accrued liabilities and interest bearing obligations such as its operating line, obligations under capital lease, amounts due to shareholders, asset retirement obligations and other amounts that will result in future cash outlays.

#### **Credit Risk**

Credit risk arises from the potential that 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 dispersed across geographic areas. Credit risk, with respect to accounts receivables in Canada and the United States, is also limited due to the Corporation's credit evaluation and cash management processes.

Concentrations of credit risk with respect to non-participation amounts due are related to the original mineral rights for the Rogers County Venture and are based on production of that venture.

#### **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, and the operational expenses and production revenue of the Rogers County venture. These risks are partially covered by purchases of goods and services in the foreign currency. The Corporation does not use derivative instruments to reduce its exposure to foreign currency risk.

#### **Fair value of financial instruments**

The carrying value of the Corporation's financial instruments approximates their fair value. The estimated fair value approximates the amount for which the financial instruments could currently be exchanged in an arm-length transaction between willing parties who are under no compulsion to act. Certain financial instruments lack an



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

available trading market; therefore, fair value amounts should not be interpreted as being necessarily realizable in an immediate settlement of the instrument.

### SUPPLEMENTARY INFORMATION

#### Selected Annual Information

The following is selected annual consolidated financial information from the Corporation's audited financial statements for each of the three most recently completed years ended August 31:

	2009	2008	2007
Revenues	\$ 1,616,601	\$ 1,752,562	\$ 1,537,278
Net loss	(7,914,776)	(6,945,179)	(4,349,901)
Basic and diluted loss per share	\$ (0.11)	\$ (0.11)	\$ (0.09)
Weighted average number of common shares outstanding	71,513,398	62,035,011	47,937,111
Working capital	\$ 15,411,660	\$ 22,085,948	\$ 4,981,588
Total assets	24,495,041	31,928,727	16,519,754
Total long term financial liabilities	187,348	248,031	376,177
Total liabilities	\$ 873,042	\$ 1,478,624	\$ 1,833,749
Shares outstanding at August 31	71,759,808	71,064,808	48,572,112

(1) This financial data is prepared in accordance with Canadian GAAP

(2) In Canadian dollars, except share data

(3) Prior years figures have reclassified to conform to current presentation

#### Summary of Quarterly Results

	4th Qtr Aug 31 '09	3rd Qtr May 31 '09	2nd Qtr Feb 28 '09	1st Qtr Nov 30'08	Annual
<b>Fiscal 2009</b>					
Revenue	\$ 537,776	\$ 380,066	\$ 267,804	\$ 430,955	\$ 1,616,601
Net Loss	\$ (1,911,645)	\$ (1,763,451)	\$ (1,544,745)	\$ (2,694,935)	\$ (7,914,776)
Basic and diluted loss per share	\$ (0.026)	\$ (0.025)	\$ (0.022)	\$ (0.038)	\$ (0.111)
Common shares outstanding					
Weighted average shares outstanding	71,513,398	71,513,398	71,467,488	71,386,072	71,513,398
Diluted shares outstanding	72,650,881	72,650,881	72,569,048	71,753,117	72,650,881



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

	4th Qtr Aug 31 '08	3rd Qtr May 31 '08	2nd Qtr Feb 28 '08	1st Qtr Nov 30 '07	Annual
<b>Fiscal 2008</b>					
Revenue	\$ 441,449	\$ 684,009	\$ 342,286	\$ 284,818	\$ 1,752,562
Net Loss	\$ (3,603,596)	\$ (1,195,773)	\$ (1,127,539)	\$ (1,018,271)	\$ (6,945,179)
Basic and diluted loss per share	\$ (0.052)	\$ (0.016)	\$ (0.021)	\$ (0.021)	\$ (0.110)
Common shares outstanding					
Weighted average shares outstanding	62,035,011	60,004,288	51,920,405	48,572,112	62,035,011
Diluted shares outstanding	62,666,627	60,712,744	52,772,987	49,374,675	62,666,627

(1) This Financial data has been prepared in accordance with Canadian GAAP

(2) All amounts in Canadian dollars except share data

(3) Prior period loss from operations have reclassified to conform to current presentation.

### FOURTH QUARTER RESULTS FOR THREE MONTHS ENDED AUGUST 31, 2009

For the three months ended August 31, 2009, the Corporation continued its focus on the commercialization of Powerwave, its core strategic value proposition, and the installation of Powerwave contracts recently acquired. The Corporation also focused on the implementation of the high profile Primawave project with a multinational oil company.

During the fourth quarter the Corporation built a testing facility for an in-house Powerwave and Primawave quality assurance process.

#### Revenues

Revenues for the three months ended August 31, 2009 were \$537,776, an increase of \$96,327 over the comparative period in 2008 that recognized revenues of \$441,449.

During the three months ended August 31, 2008 revenues from service and royalties increase by \$237,825 principally due to the recognition of Powerwave and Primawave licensing revenues during the quarter. With the back log of contracts on hand and recent installations, the Corporation anticipates these product lines revenues to continue to grow. However, the increases in Powerwave and Primawave revenue streams were partially offset by decreases in both production revenue and operator fees of \$140,468 and interest and other revenue of \$1,031.

#### Direct Costs

Direct expenses for the three month period end August 31, 2009 were \$107,825 (2008 - \$376,776) or 25.3% of revenue from service and royalties. The quarters decrease in direct costs relates principally relates to the shifting of the of the product mix to include a greater weighting of Powerwave and Primawave revenues versus the more cost intensive product lines of tubing pumps, bailer and surge cup rentals market performed in the heavy oil sector.



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

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### Other Expenses

Other expense for the three months end August 31, 2009 amounted to \$1,803,827, compared to \$3,668,269 in 2008. The decrease in expenses of \$1,864,442, principally relates to a write-down of its Rogers County oilfield property, plant and equipment and non-participation amounts by \$2,095,242 in the prior year. Excluding the prior year write-down of the Rogers County oilfield property, plant and equipment and non-participation amounts, other fourth quarter expenses variance totaling \$675,752 were a result of:

- i) At August 31, 2009, the Corporation completed its annual goodwill impairment test, which resulted in a non-cash goodwill impairment of \$247,605 for the year (2008 - \$nil). Several factors led to the impairment including the slowdown in the economy and worsening overall market conditions, in particular oil and gas activities, and a reduction in capital spending in the oil and gas sector which impacts the amount of future work/projects awarded to the corporation. The calculated amounts to be written-down, and the resulting carrying value of the Goodwill, may not be indicative of the actual value.
- ii) An increase in "amortization, depreciation, depletion and accretion" expenses of \$177,610 that principally relates to the amortization of the asset related Rogers County oilfield, which was not amortized in the prior period,
- iii) An increase in "selling, marketing, and travel" expense of \$131,312 that relates to increased activity and resulting increase in the size of the Corporation's Powerwave and Primawave sales force and operating at multiple office locations across Canada and the United States. Additionally the Corporation has been pursuing the use of and agents for Powerwave in Southeast Asia, Europe and Mexico, and for Primawave in Southeast Asia and Europe.

### Net Loss and Loss Per Share

The net loss for the three months ended August 31, 2009 was \$1,911,645 or \$0.026 per share, compared to \$3,603,596 or \$0.052 for the comparative period in 2008. The decrease in losses principally pertain the write-down of the Rogers County oilfield property, plant and equipment and non participation amounts of \$2,095,242 in the fourth quarter of the prior year.



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

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### DESCRIPTION OF SHARE CAPITAL

As at August 31, 2009, the Corporation's share capital consists of the following:

<b>Common shares</b>	
Authorized:	unlimited
Issued and outstanding:	
Free trading	71,159,808
Escrow shares	<u>600,000</u>
	71,759,808
Convertible into common shares	
Share purchase warrants	-
Incentive stock options	<u>3,108,970</u>
	<u>3,108,970</u>
Fully diluted share capital:	<u>74,868,778</u>

The above noted escrow shares are subject a value escrow agreement is related to the Top Gun Acquisition. 180,000 of the escrow shares have been released as at August 31, 2009.

### Market for Securities

The common shares of Wavefront Technology Solutions Inc. are listed on the TSX Venture Exchange under the symbol of WEE.

The Corporation maintains a Stock Option Plan under which it may grant options for up to 10,711,558 shares of the Corporation at an exercise price no less than the market price of the Corporation's share price at the date of grant. All stock options issued under the Stock Option Plan vest equally, in three month intervals, over eighteen months.

### Options granted during the period

<b>Date of Grant</b>	<b>Number of Shares</b>	<b>Optionee</b>	<b>Exercise Price</b>	<b>Expiry Date</b>
January 5, 2009	500,000	Insiders	\$ 0.54	January 5, 2013
January 5, 2009	100,000	Employee	\$ 0.54	January 5, 2013
January 30, 2009	150,000	Employees	\$ 0.60	January 30, 2013
July 8, 2009	<u>128,800</u>	Employees	\$ 0.59	July 8, 2013
	878,800			



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

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### Options outstanding

<b>Date Granted</b>	<b>Expiry Date</b>	<b>Number of incentive stock options</b>	<b>Price per share (\$)</b>
October 5, 2004	October 5, 2009	265,000	0.45
September 1, 2005	September 1, 2010	240,000	0.40
January 11, 2006	January 11, 2011	725,000	2.95
May 15, 2006	May 15, 2011	200,000	2.57
August 1, 2006	August 1, 2011	100,000	1.76
March 6, 2007	March 6, 2012	100,170	0.97
February 14, 2008	February 14, 2013	50,000	1.40
February 22, 2008	February 22, 2013	210,000	1.65
March 4, 2008	March 4, 2013	200,000	2.05
June 27, 2008	June 27, 2013	140,000	2.90
January 5, 2009	January 5, 2014	600,000	0.54
January 30, 2009	January 30, 2014	150,000	0.60
July 8, 2009	July 8, 2014	128,800	0.59
		<u>3,108,970</u>	

Subsequent to August 31, 2009, 260,000 incentive stock options were issued to insiders with an exercise price of \$0.72 and expiring on September 4, 2013. Additionally, 84,133 incentive stock options were exercised by employees of the Corporation at prices ranging from \$0.59 to \$0.97 for gross proceeds of \$51,718, and 5,000 incentive stock options were terminated with an exercise price of \$2.90.

### Warrants outstanding

As at August 31, 2009 and 2008, no common share purchase warrants were outstanding.

### CONTROLS AND PROCEDURES

Management has established processes, which are in place to provide them sufficient knowledge to support management representations that they have exercised reasonable diligence that (i) the audited annual financial statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of and for the periods presented by the unaudited interim financial statements and that (ii) the audited annual financial statements fairly present in all material respects the financial condition, results of operations and cash flows of the Corporation, as of the date of and for the periods presented by the audited financial statements.

In contract to the certificate required under Multilateral Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings (MI 52-109), the Corporation utilizes the Venture Issuer Basic Certificate which does not include representations relating to the establishment and maintenance of disclosure controls and procedures (DC&P) and internal controls over financial reporting (ICFR), as defined in MI 52-109. In particular, the certifying



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

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officers filing Venture Issuer Basic Certificate are not making any representations relating to the establishment and maintenance of:

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

The Corporation's certifying officers are responsible for ensuring that processes are in place to provide them with sufficient knowledge to support the representations they are making in this certificate.

### **FORWARD-LOOKING INFORMATION**

*Statements in this Management Discussion and Analysis relating to matters that are not historical facts are forward-looking statements. Such forward-looking statements involve known and unknown risks and uncertainties which may cause the actual results, performance or achievements of the Corporation to be materially different from any future results implied by such forward-looking statements. Such factors include fluctuations in acceptance rates of Wavefront's Powerwave and Primawave (formerly known as Pressure Pulsing Technology) technologies, demand for products and services, fluctuations in the market for oil and gas related products and services, the ability of Wavefront to attract and maintain key personnel, technology changes, global political and economic conditions, and other factors that are described in further detail in Wavefront's continuous disclosure filings.*

### **ADDITIONAL INFORMATION**

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