

Wavefront Technology Solutions Inc.

Consolidated Financial Statements
August 31, 2009 and 2008

December 14, 2009

Auditors' Report

To the Shareholders of Wavefront Technology Solutions Inc.

We have audited the consolidated balance sheets of **Wavefront Technology Solutions Inc.** as at August 31, 2009 and 2008 and the consolidated statements of loss, comprehensive loss and deficit and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at August 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(Signed) "PricewaterhouseCoopers LLP"

Chartered Accountants

Wavefront Technology Solutions Inc.

Consolidated Balance Sheets

As at August 31, 2009 and 2008

	2009 \$	2008 \$
Assets		
Current assets		
Cash and cash equivalents	15,336,137	22,435,719
Accounts receivable	535,869	758,180
Prepaid expenses	145,567	36,303
Inventory	62,339	86,339
	<u>16,079,912</u>	<u>23,316,541</u>
Deposits	65,735	62,136
Property, plant and equipment (notes 6, 7 and 22)	5,197,970	4,991,092
Intangible assets (note 8)	1,981,873	2,570,096
Goodwill (notes 5 and 9)	1,152,110	988,862
	<u>24,477,600</u>	<u>31,928,727</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	610,224	1,068,559
Current portion of amounts due to shareholders (note 10)	75,470	137,985
Current portion of obligations under capital leases	-	24,049
	<u>685,694</u>	<u>1,230,593</u>
Due to shareholders (note 10)	-	73,469
Asset retirement obligation (note 11)	187,348	174,562
	<u>873,042</u>	<u>1,478,624</u>
Shareholders' Equity		
Share capital (note 14)	49,721,045	49,319,704
Contributed surplus (note 14)	3,328,245	2,642,913
Deficit	(29,444,732)	(21,512,514)
	<u>23,604,558</u>	<u>30,450,103</u>
	<u>24,477,600</u>	<u>31,928,727</u>

Approved by the Board of Directors

__ "Walter Stelmaschuk" (signed) _____ Director

__ "Steve Percy" (signed) _____ Director

Wavefront Technology Solutions Inc.

Consolidated Statements of Loss, Comprehensive Loss and Deficit For the years ended August 31, 2009 and 2008

	2009 \$	2008 \$
Revenue		
Service revenue and royalties	1,138,151	1,043,207
Production revenue and operator fees, net of taxes and royalties	177,821	216,832
Interest and other	300,629	492,523
	<u>1,616,601</u>	<u>1,752,562</u>
Expenses		
General and administrative expenses	4,135,601	3,434,953
Write-down of oilfield property, plant and equipment, and non-participation amounts (note 7)	1,133,936	2,095,242
Direct costs	437,865	734,451
Selling, marketing and travel	863,576	639,706
Stock-based compensation	749,273	395,142
Amortization, depreciation, depletion and accretion expenses	738,867	603,041
Research and development	692,945	603,000
Write-down of intangible assets (note 8)	555,212	50,661
Write-down of goodwill (note 9)	247,605	-
Listing and public company fees	119,805	248,228
Interest expense	15,045	43,914
Loss (gain) on disposal of property, plant and equipment	17,322	(9,354)
Foreign exchange gain	(158,233)	(141,243)
	<u>9,548,819</u>	<u>8,697,741</u>
Net loss and comprehensive loss for the year	(7,932,218)	(6,945,179)
Deficit – Beginning of year	(21,512,514)	(14,567,335)
Deficit – End of year	(29,444,732)	(21,512,514)
Loss per common share (note 15)		
Basic and diluted	<u>(0.11)</u>	<u>(0.11)</u>

Wavefront Technology Solutions Inc.

Consolidated Statements of Cash Flows

For the years ended August 31, 2009 and 2008

	2009 \$	2008 \$
Cash provided from (used in)		
Operating activities		
Net loss for the year	(7,932,218)	(6,945,179)
Items not affecting cash		
Write-down of oilfield property, plant and equipment, and non-participation amounts	1,133,936	2,095,242
Stock-based compensation (note 14)	749,273	395,142
Amortization, depreciation, depletion and accretion expenses	738,867	603,041
Write-down of intangible assets	555,212	50,661
Write-down of goodwill (note 9)	247,605	-
Loss (gain) on disposal of property, plant and equipment	17,322	(9,354)
	<u>(4,490,003)</u>	<u>(3,810,447)</u>
Net change in non-cash working capital items (note 16)	<u>(284,746)</u>	451,576
	<u>(4,774,749)</u>	<u>(3,358,871)</u>
Financing activities		
Proceeds from private placement (net of share issuance costs)	-	12,805,050
Proceeds from warrants exercised	-	9,141,704
Proceeds from options exercised	337,400	367,382
Repayment of long-term debt	(111,807)	-
Repayment of amounts due to shareholders	(137,984)	(167,639)
Repayment of obligations under capital leases	(2,867)	(79,863)
	<u>84,742</u>	<u>22,066,634</u>
Investing activities		
Purchase of property, plant and equipment	(1,801,342)	(1,289,768)
Intangible costs	(97,429)	(504,888)
Business acquisition (note 5)	(550,676)	-
Proceeds on disposal of property, plant and equipment	39,872	91,663
	<u>(2,409,575)</u>	<u>(1,702,993)</u>
(Decrease) increase in cash and cash equivalents	(7,099,582)	17,004,770
Cash and cash equivalents – Beginning of year	22,435,719	5,430,949
Cash and cash equivalents – End of year	15,336,137	22,435,719
Supplementary information		
Interest paid	<u>18,610</u>	<u>47,583</u>

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Notes to Consolidated Financial Statements

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1 Description of business

Wavefront Technology Solutions Inc. (formerly 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 (PowerwaveTM), and the optimization of groundwater remediation (PrimawaveTM) approaches. In the oil sector the Corporation's strategy is to leverage its intellectual property through licenses of the technology to service providers, provide site licenses to oil producers and to obtain over-riding royalty payments in-kind for site licenses. In the environmental sector the Corporation's strategy is to provide site licenses to service providers, consultants, and stakeholders involved in site specific groundwater clean-up.

2 Accounting policies

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

a) Measurement uncertainty

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

b) Cash and cash equivalents

Cash and cash equivalents are comprised of cash on deposit, net of cheques issued in excess of cash on deposit; and, balances held in short-term, highly liquid, Guaranteed Investment Certificates with an interest rate of 0.85%. The Corporation maintains revolving operating lines of credit that are included in cash and cash equivalents, as they fluctuate regularly between being overdrawn and positive.

c) Translation of foreign currencies

Transactions in foreign currencies are translated into Canadian dollars at rates of exchange at the time of such transactions. Foreign operations are considered financially and operationally integrated and are translated into Canadian dollars using the temporal method of translation. Accordingly, monetary assets and liabilities are translated at current rates of exchange. Non-monetary assets and liabilities are translated at historical exchange rates. Revenue and expenses denominated in a foreign currency are translated at the monthly average exchange rate (except for amortization which is translated at historical exchange rates). Gains and losses resulting from the translation adjustments are included in income.

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d) Revenue recognition

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

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

e) Warranty expense

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

f) Property, plant and equipment

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

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

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

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g) Oilfield property, plant and equipment

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

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

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

h) Asset retirement obligations

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

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

i) Goodwill

Goodwill represents the excess of the purchase price of a business acquisition over the fair value of the underlying net assets at the date of acquisition. Goodwill arising from the acquisition is not amortized and is tested for impairment annually, or more frequently if events or changes in circumstances indicate the net asset might be impaired. Impairment is tested by comparing the carrying amount of the reporting unit, including goodwill, with its fair value. Fair value is determined using the discounted, estimated future operating cash flows of the reporting unit. When the fair value of the reporting unit exceeds its carrying

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

j) Intangible assets

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

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

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

k) Inventory

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

l) Research and development costs

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

As at August 31, 2009 and 2008, no development costs have been capitalized with the exception of development costs related to oilfield property, plant and equipment as described in 2(g).

m) Income taxes

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

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

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n) Investment tax credits

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

o) Stock-based compensation plan

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

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

p) Loss per share

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

q) Financial instruments

Financial assets and financial liabilities

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.

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Held-for-trading

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

Available-for-sale

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

Held-to-maturity

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

Loans, receivables and other financial liabilities

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

The Corporation has made the following classifications:

	Classification	Measurement
<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
Obligations under capital lease	Loans, receivables and other financial liabilities	Amortized cost

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3 Changes in Accounting Policies

Financial instruments

Effective September 1, 2008, the Corporation adopted the CICA Handbook Sections 3862 “Financial Instruments – Disclosures” and 3863 “Financial Instruments – Presentation”. These sections replace Section 3861 “Financial Instruments – Disclosures and Presentation”. Section 3862 requires entities to provide disclosures in their financial statements that enable users to evaluate the significance of financial instruments on the entity’s financial position and its performance and the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and how the entity manages those risks. Section 3863 establishes standards for presentation of financial instruments and nonfinancial derivatives. It addresses the classification of financial instruments, from the perspective of the issuer, between liabilities and equities, the classification of related interest, dividends, losses and gains, and circumstances in which financial assets and liabilities are offset. These new standards did not have a material effect on the Corporation’s financial position or results of operations.

Capital disclosures

Effective September 1, 2008, the Corporation adopted the CICA Handbook Section 1535 “Capital Disclosures”. This section establishes standards for disclosing information about a Corporation’s capital and how it is managed in order that a user of the financial statements may evaluate the Corporation’s objectives, policies, and processes for managing capital. This new standard did not have a material effect on our financial position or results of operations.

General standards of financial statements

Effective September 1, 2008, the Corporation adopted revisions to Handbook Section 1400 “General Standards of Financial Statement Presentation”. The revisions establish the requirement for management to make an assessment of the Corporation’s ability to continue as a going concern and to disclose any material uncertainties related to events or conditions that may cast significant doubt upon the entity’s ability to continue as a going concern. This revised standard did not have a material effect on the Corporation’s financial position or results of operations.

4 Future Accounting Changes

Goodwill and Intangible Assets

The CICA issued revised Handbook Section 3064 “Goodwill and Intangible Assets”, which will replace the existing 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 the Corporation’s financial position or results of operations.

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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.

5 Business acquisition

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. Consideration for the Acquisition was \$550,676 (the “Purchase Price”) payable in cash. The Acquisition agreement includes a provision for contingent consideration of up to \$150,000 based on maintenance of certain sales performance conditions one year from the closing date. Any contingent consideration will be paid in cash, and is recorded as an incremental cost of the Purchase Price and added to goodwill.

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

	\$
Current assets	55,676
Non-current assets	<u>213,490</u>
Total assets acquired	<u>269,166</u>

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Current liabilities	84,437
Long-term debt	<u>44,906</u>
 Total liabilities assumed	 <u>129,343</u>
 Net assets acquired	 139,823
Goodwill	<u>410,853</u>
 Purchase price	 <u>550,676</u>

6 Property, plant and equipment

	2009		
	Cost	Accumulated depreciation	Net
	\$	\$	\$
Oilfield property, plant and equipment (note 7)	560,390	47,384	513,006
Non-participation amounts (note 7)	772,914	37,900	735,014
Equipment	4,568,763	859,742	3,709,021
Computer equipment	233,151	165,825	67,326
Computer software	330,119	310,674	19,445
Automotive equipment	114,658	18,425	96,233
Office furniture and fixtures	122,314	64,389	57,925
	<u>6,702,309</u>	<u>1,504,339</u>	<u>5,197,970</u>
	2008		
	Cost	Accumulated depreciation	Net
	\$	\$	\$
Oilfield property, plant and equipment (note 7)	1,120,666	-	1,120,666
Non-participation amounts (note 7)	1,085,773	-	1,085,773
Equipment	3,094,768	497,165	2,597,603
Computer equipment	227,713	140,010	87,703
Computer software	274,911	231,006	43,905
Automotive equipment	58,191	27,633	30,558
Office furniture and fixtures	68,821	43,937	24,884
	<u>5,930,843</u>	<u>939,751</u>	<u>4,991,092</u>

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Property, plant and equipment includes equipment under construction of \$1,130,601 (2008 – \$1,334,942), which is not being depreciated. Property, plant and equipment also include assets under capital leases with a cost of \$nil (2008 – \$56,232) and a net book value of \$nil (2008 – \$29,392).

Depreciation expense for the year ended August 31, 2009 was \$595,557 (2008 – \$470,541), including depreciation relating to equipment under capital leases of \$nil (2008 – \$17,970).

7 Oilfield property, plant and equipment

Rogers County

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

Included in oilfield property, plant and equipment is the Corporation’s proportionate share of oil well development costs totalling \$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 right in the Joint Operating Agreement. As at August 31, 2009, amounts recorded under non-participation amounts totalled \$735,014 (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.

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 Rogers County property, plant and equipment and non-participation amounts by \$1,133,936 (2008 - \$2,095,242). The fair value was determined based on estimated present value of future cash flows calculated using internal production estimates and historical average prices per barrel of oil. The write-down is reflected in the oil and gas properties reporting segment and the US geographic reporting segment affecting net loss for the year, segment assets and total assets (note 18). The calculated amounts to be written-down, and the resulting carrying value of the Rogers County assets, may not be indicative of the actual values. The cost centre impairment test completed at the balance sheet date did not indicate additional impairment losses.

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The Corporation has recognized production revenue of \$105,344 (2008 – \$115,865) related to the Rogers County venture.

Young County

During the year ended August 31, 2007, the Corporation acquired one hundred (100%) percent of the working interest in certain mineral leases in Young County, Texas for total consideration of \$179,868. No costs were incurred on these leases for the year ended August 31, 2009 (2008 - \$nil).

Taylor County

During the year ended August 31, 2008, the Corporation acquired fifty (50%) percent working interest in certain mineral leases in Taylor County, Texas for total consideration of \$39,768. No costs were incurred on these leases for the year ended August 31, 2009 (2008 - \$nil).

8 Intangible assets

	2009		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Royalty rights	1,719,872	148,051	1,571,821
Fully-paid up license	106,990	22,214	84,776
Patents	437,515	112,239	325,276
Incorporation costs	3,451	3,451	-
	<u>2,267,828</u>	<u>285,955</u>	<u>1,981,873</u>
			2008
	Cost	Accumulated amortization	Net
	\$	\$	\$
Royalty rights	2,266,306	58,723	2,207,583
Fully-paid up license	106,990	15,555	91,435
Patents	348,864	78,559	270,305
Incorporation costs	3,451	2,678	773
	<u>2,725,611</u>	<u>155,515</u>	<u>2,570,096</u>

Amortization expense for the year ended August 31, 2009 totalled \$130,269 (2008 – \$97,322).

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Greentree Gas and Oil Ltd. royalty rights

At August 31, 2006, the Corporation entered into a "Farm-in" Agreement with Greentree Gas and Oil Ltd. ("Greentree") to develop Greentree's Rodney South oilfield lease. Under the Farm-in Agreement the Corporation will supply its Powerwave technology and fund up to \$2.25 million for initial capital expenditures and working capital requirements. Additional development costs are expected to be financed from cash from operations. Greentree will act as the Operator of the lease and will contribute the petroleum leases, existing seismic and geological data, and the use of its existing field facilities. Greentree will also provide its field maintenance staff, administrative, and office support staff. In consideration for each party's contributions, cash flows from operating activities will be allocated 70% and 30% to the Corporation and Greentree, respectively, until payout of the Corporation's initial \$2.25 million capital investment. Subsequent to payout, cash flow from operating activities will be allotted 50% to the Corporation and Greentree respectively. As at August 31, 2009, the Corporation has paid Greentree \$2,168,834 (2008 - \$2,168,834) under the Farm-in Agreement. The Corporation may be obligated to fund, should the parties agree to further development of the Rodney South oilfield lease, the remaining balance of up to \$81,166 (2008 - \$81,166) under the Farm-in Agreement. The resulting asset is classified as finite life intangible asset.

Amortization expense for the year ended August 31, 2009 totalled \$89,327 (2008 - \$61,973) on the royalty rights.

During the first quarter of fiscal 2009, the Corporation reviewed the carrying amount of its royalty rights and, whether there were indications, 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 royalty rights by \$555,212 (August 31, 2008 - \$nil). The write-down is reflected in the oil and gas properties reporting segment and the Canadian geographic reporting segment affecting net loss for the year, segment assets and total assets (note 18). The calculated amounts that were written-down, and the resulting carrying value, may not be indicative of the actual values. The impairment test completed at the balance sheet date did not indicate additional impairment losses.

9 Goodwill

	2009	2008
Balance, beginning of year	988,862	988,862
Additions	410,853	-
Impairment charges	(247,605)	-
Balance, end of year	1,152,110	988,862

The Corporation completed its annual goodwill impairment test effective August 31, 2009, which resulted in a goodwill impairment of \$247,605 (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 values.

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10 Due to shareholders

In connection with a business acquisition completed in a prior year, the shareholders of the acquired company agreed to enter into debt repayment agreements. Under the terms of the debt repayment agreements, the amounts due to shareholders are unsecured, and are repayable in equal quarterly installments over three years.

11 Asset retirement obligation

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

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

	2009	2008
	\$	\$
Asset retirement obligations – Beginning of year	174,562	74,890
Liabilities incurred	-	62,196
Changes in estimated future cash flow	(1,865)	-
Accretion expense	13,041	34,944
Foreign currency	1,610	2,532
	<hr/>	<hr/>
Asset retirement obligations – End of year	187,348	174,562

The total undiscounted amount of estimated cash flows required to settle the obligation is US\$ 328,736 (2008 – US\$334,028), 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-eight years in the future and will be funded from general corporate resources at the time of the retirement and removal.

12 Income taxes

Future income taxes reflect the net tax affects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The Corporation has recognized a valuation allowance for those future tax assets for which its realization is not more likely than not to occur.

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Significant components of the Corporation's future tax assets and liabilities as of August 31, 2009 are as follows:

	2009	2008
	\$	\$
Future income tax assets		
Non-capital losses carried forward	3,057,426	2,699,188
Net operating losses carried forward	2,005,130	1,353,406
Interest expense not tax-deductible until future years	501,047	120,607
Research and development expenditures	174,715	111,741
Property, plant and equipment and intangible assets	1,061,178	665,221
Financing costs	199,214	289,707
Unrealized foreign exchange capital losses	50,748	50,761
	<u>7,049,458</u>	<u>5,290,631</u>
Less: Valuation allowance	(7,049,458)	(5,290,631)
Net future income tax asset	<u>-</u>	<u>-</u>

As at August 31, 2009 the Corporation had scientific research and experimental development expenditures in the amount of \$444,926 (2008 – \$444,926) available for carry-forward to reduce future taxable income.

The Corporation and its subsidiaries also have, in aggregate, Canadian non-capital losses in the amount of \$12,176,911 and U.S. net operating losses of \$4,869,162 to be carried forward and used to reduce income for tax purposes in future years, subject to confirmation by taxation authorities. The potential income tax benefits associated with these losses and expenditures have not been reflected in the consolidated financial statements as they have been fully offset by a valuation allowance. These losses expire as follows:

	U.S.	Canadian
	\$	\$
2010	-	579,441
2014	-	1,823,383
2015	-	1,112,562
2024	669	-
2025	180,377	-
2026	327,314	1,792,581
2027	1,381,892	1,208,478
2028	1,493,262	2,501,570
2029	1,485,648	3,158,896
	<u>4,869,162</u>	<u>12,176,911</u>

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The Corporation's substantively enacted Canadian statutory tax rate is approximately 29.11% (2008 – 29.64%). The difference between the computed expected income tax recovery and the actual income tax recovery are summarized as follows:

	2009 \$	2008 \$
Loss before income tax	<u>(7,932,218)</u>	(6,945,179)
Expected income tax recovery at statutory income tax rate	(2,309,069)	(2,058,551)
Adjusted for the following:		
Difference between U.S. and Canadian tax rates on U.S. losses	(177,432)	(279,635)
Stock-based compensation	218,113	117,132
Write down of goodwill	72,078	-
Unrealized foreign exchange capital loss	54,579	24,947
Substantively enacted rates	95,434	516,504
Expiry of non-capital losses	416,899	247,495
Financing costs	-	(273,785)
Valuation allowance	1,758,828	1,660,719
Non-deductible and other items	<u>(129,430)</u>	45,174
	<u>-</u>	<u>-</u>

13 Contingencies and commitments

a) Operating leases

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

	\$
2010	94,932
2011	<u>73,057</u>
	<u>167,989</u>

b) Farm-in Agreement

As described in note 8, the Corporation may be obligated to fund, should the parties agree to further development of the Rodney South oilfield lease, the remaining balance of up to \$81,166 (2008 - \$81,166) under the Farm-in Agreement.

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14 Share capital

The Corporation's authorized and issued share capital for the year ended August 31, 2009 and 2008 are as follows:

Authorized

Unlimited common shares without par value

Issued common shares

	2009		2008	
	Number #	Stated capital \$	Number #	Stated capital \$
Balance – Beginning of year	71,064,808	49,319,704	48,572,112	26,911,271
Shares issued in private placement ⁽¹⁾⁽²⁾	-	-	14,626,730	12,147,021
Stock options exercised ⁽³⁾	695,000	401,341	552,603	461,680
Warrants exercised ⁽⁴⁾	-	-	7,313,363	9,799,732
Balance – End of year	71,759,808	49,721,045	71,064,808	49,319,704

⁽¹⁾ Effective December 24, 2007, the Corporation issued 4,985,678 units at a price of \$0.95 per unit for gross proceeds of \$4,736,394. The 4,985,678 units were issued by way of a brokered and concurrent non-brokered private placement. Each unit consisted of one common share and one-half common share purchase warrant, with each full share purchase warrant entitling the holder to acquire a common share at a price of \$1.25 for a period of 12 months ended December 24, 2008, or subject to earlier expiry. The common share purchase warrants were valued at \$333,157. The Corporation paid filing fees, finders fees, legal and agent expenses of \$478,465, resulting in net cash proceeds of \$4,257,929.

⁽²⁾ Effective January 31, 2008, the Corporation issued 9,641,052 units at a price of \$0.95 per unit for gross proceeds of \$9,158,999. The 9,641,052 units were issued by way of a brokered and concurrent non-brokered private placement. Each unit consisted of one common share and one-half common share purchase warrant, with each full share purchase warrant entitling the holder to acquire a common share at a price of \$1.25 for a period of 12 months ended January 31, 2009, or subject to earlier expiry. The common share purchase warrants were valued at \$324,871. The Corporation paid filing fees, finders fees, legal and agent expenses of \$611,879, resulting in net cash proceeds of \$8,547,120.

⁽³⁾ The 695,000 incentive stock options exercised during the year ended August 31, 2009, were at a prices ranging from \$0.44 to \$0.55. The 552,603 stock options exercised during the year ended August 31, 2008, were at a prices ranging from \$0.40 to \$1.76.

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⁽⁴⁾ In connection with the December 24, 2007 and the January 31, 2008 private placements noted above, all common share purchase warrants (“Warrant”) were exercised at a price of \$1.25 per Warrant for gross proceeds of \$9,141,704.

No common share purchase warrants were issued or exercised during the current or comparative fiscal year.

Stock-based compensation plan

The Corporation maintains an Employee, Director, Officer and Consultant Stock Option Plan under which the Corporation may grant incentive stock options for up to 10,771,583 shares of the Corporation at an exercise price equal to or greater than the market price of the Corporation’s stock at the date of grant. All stock 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 August 31, 2009 and 2008, and the changes during the years ended on those dates are presented below:

Stock options	2009		2008	
	Number #	Weighted average exercise price \$	Number #	Weighted average exercise price \$
Outstanding – Beginning of year	3,015,170	1.60	3,017,773	1.30
Granted	878,800	0.56	620,000	2.08
Exercised	(695,000)	0.49	(552,603)	0.66
Cancelled	(40,000)	1.94	(70,000)	0.81
Expired	(50,000)	0.50	-	-
Outstanding – End of year	<u>3,108,970</u>	<u>1.56</u>	<u>3,015,170</u>	<u>1.60</u>

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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	1.4	725,000	1.4
2.90	140,000	3.8	93,335	3.8
2.57	200,000	1.7	200,000	1.7
2.05	200,000	3.5	166,667	3.5
1.76	100,000	1.9	100,000	1.9
1.65	210,000	3.5	210,000	3.5
1.40	50,000	3.5	50,000	3.5
0.97	100,170	2.5	100,170	2.5
0.60	150,000	4.4	50,000	4.4
0.59	128,800	4.9	-	-
0.54	600,000	4.3	199,994	4.3
0.45	265,000	0.1	265,000	0.1
0.40	240,000	1.0	240,000	1.0
	3,108,970	2.6	2,400,166	2.1

- a) Effective January 5, 2009, the Corporation issued 600,000 incentive stock options to directors and an employee of the Corporation with an exercise price of \$0.54. The stock options are subject to the Stock Option Plan, and expire on January 5, 2014. Of the 600,000 stock options issued, 500,000 were issued to directors of the Corporation.
- b) Effective January 30, 2009, the Corporation issued 150,000 incentive stock options to employees of the Corporation with an exercise price of \$0.60. The stock options are subject to the Stock Option Plan, and expire on January 30, 2014.
- c) Effective July 8, 2009, the Corporation issued 128,800 incentive stock options to employees of the Corporation with an exercise price of \$0.59. The stock options are subject to the Stock Option Plan, and expire on July 8, 2014.
- d) Effective February 14, 2008, the Corporation issued 50,000 incentive stock options to a consultant of the Corporation with an exercise price of \$1.40. The stock options are subject to the Stock Option Plan, additional vesting provisions relating to sales, and expire on February 14, 2013.

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e) Effective February 22, 2008, the Corporation issued 210,000 incentive stock options to the directors of the Corporation with an exercise price of \$1.65. The stock options are subject to the Stock Option Plan, and expire on February 22, 2013.

f) Effective March 4, 2008, the Corporation issued 200,000 incentive stock options to employees of the Corporation with an exercise price of \$2.05. The stock options are subject to the Stock Option Plan, and expire on March 4, 2013.

g) Effective June 27, 2008, the Corporation issued 160,000 incentive stock options to employees of the Corporation with an exercise price of \$2.90. The stock options are subject to the Stock Option Plan, and expire on June 27, 2013.

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

	2009	2008
Dividend yield	-	-
Risk-free rate	1.86% to 2.39%	2.88% to 3.40%
Average life	5 years	5 years
Volatility rate	122.09% to 124.04%	98.20% to 112.85%
	\$	\$
Weighted fair value of options granted during the year	0.47	1.50

During the year ended August 31, 2009, the Corporation incurred \$749,273 (2008 – \$395,142) in compensation expense relating to outstanding stock options.

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

Contributed surplus

	2009	2008
	\$	\$
Balance – Beginning of year	2,642,913	2,342,069
Stock based compensation	749,273	395,142
Warrant issuance	-	658,028
Stock options exercised	(63,941)	(94,298)
Warrants exercised	-	(658,028)
	<hr/>	<hr/>
Balance – End of year	3,328,245	2,642,913

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Escrow shares

In connection with a business acquisition completed in a prior year 600,000 common shares were issued as part of the consideration. At August 31, 2009, 180,000 common shares remain held in escrow (2008 – 360,000).

15 Loss per share

The Corporation uses the treasury stock method to calculate diluted earnings per share. Under the treasury stock method, the numerator remains unchanged from the basic earnings per share calculation, as the assumed exercise of the Corporation's share purchase warrants and stock options do not result in an adjustment to income. The weighted average number of common shares outstanding is 71,575,507 (2008 – 62,035,011).

Diluted loss per share is computed by giving effect to the potential dilution that would occur if stock options were exercised. The treasury stock method assumes that the proceeds received from the exercise of the "in-the-money" stock options are used to repurchase common shares at the average market price for the year ended August 31, 2009.

In determining diluted loss per share, the weighted average number of shares outstanding was increased by 1,265,565 (2008 – 631,616) 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 72,841,072 (2008 – 62,666,627). As the result was anti-dilutive in both fiscal 2009 and 2008, no adjustments were made to net loss to calculated diluted loss per share.

16 Net change in non-cash working capital items

	2009	2008
	\$	\$
Accounts receivable	276,202	144,114
Prepaid expenses	(111,077)	(11,662)
Inventories	24,000	(5,393)
Goodwill restatement	-	432,139
Accounts payable and accrued liabilities	(473,871)	(107,622)
	<u>(284,746)</u>	<u>451,576</u>

17 Management of capital

As at August 31, 2009, the Corporation's capital is composed of share capital of \$49,721,045, cash and cash equivalents of \$15,336,137 and an available revolving line of credit of \$100,000 that had an outstanding balance of \$nil.

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

- To safeguard the entity's ability to continue as a going concern, so that it can provide returns to shareholders and benefits for other stakeholders; and
- To maintain sufficient cash and cash equivalents and short-term investments to fund its business plan.

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

The Corporation is not subject to any externally imposed capital requirements. The Corporation's strategy remains unchanged from prior periods.

18 Segmented information

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

Year ended August 31, 2009	Equipment and technology \$	Oil and gas properties \$	Corporate and other \$	Year ended August 31 2009 \$
Revenue	1,141,051	177,821	297,729	1,616,601
Net loss for the year	(4,416,161)	(2,293,137)	(1,222,920)	(7,932,218)
Changes in goodwill	163,248	-	-	163,248
Segment assets	6,385,177	2,925,597	15,166,826	24,477,600
Capital expenditures	2,002,419	382,026	65,002	2,449,447

Year ended August 31, 2008	Equipment and technology \$	Oil and gas properties \$	Corporate and other \$	Year ended August 31 2008 \$
Revenue	857,845	141,711	753,006	1,752,562
Net loss for the year	(2,490,247)	(3,167,277)	(1,287,655)	(6,945,179)

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Changes in goodwill	(432,138)	-	-	(432,138)
Segment assets	4,541,793	4,805,880	22,581,054	31,928,727
Capital expenditures	941,129	763,159	90,368	1,794,656

Geographic Information	2009		2008	
	Revenue \$	Total assets \$	Revenue \$	Total assets \$
Canada	1,337,539	22,094,339	1,610,852	29,125,171
United States	279,062	2,383,261	141,710	2,803,556
	1,616,601	24,477,600	1,752,562	31,928,727

During the year ended August 31, 2009, the Corporation recorded revenue from 49 (2008 – 40 customers). Sales in 2009 from the top three customers amounted to \$231,340, \$195,923 and \$63,000, which represented 14.0%, 11.9% and 3.8%, respectively of total revenue. Sales in 2008 from the top three customers amounted to \$282,942, \$265,714 and \$241,971, which represented 16.1%, 15.1% and 13.8%, respectively of total revenue.

19 Seasonality of operations

Oilfield services offered by the Corporation are seasonable and related to the product offering and geographical extent to which products were offered for sale. The Corporation's pump and bailer product offering, in relation to oilfield services, are rental and sale of downhole equipment. At present, 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. As such management believes that this seasonality of operations will have minimal affects moving forward.

20 Financial instruments

Financial instruments consist of the Corporation's cash, guaranteed investment certificates, accounts receivable, accounts payable and accrued liabilities, lines of credit, and amounts due to shareholders. The Corporation is not subject to any covenants or restrictions to any indebtedness.

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The Corporation is exposed to the following risks in respect of certain financial instruments held:

Fair Value

Fair value is subjective in nature, requiring valuation techniques and assumptions. Fair value amounts disclosed in these consolidated financial statements represent the Corporation's estimate of the price at which a financial instrument could be exchanged in a market in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. They are point-in-time estimates that may change in subsequent reporting periods due to market conditions or other factors.

The carrying amounts in the balance sheet for cash and cash equivalents approximate their fair values due to the short terms to maturity of these instruments.

The carrying amounts in the balance sheet for accounts receivable, accounts payable and accrued liabilities, obligations under capital leases, amounts due to shareholders, and asset retirement obligations are recorded at amortized cost.

Liquidity Risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they come due. The Corporation has sustained substantial losses and negative cash flows. As at August 31, 2009, the Corporation had \$15,336,137 of cash and cash equivalents.

Cash includes \$14,953,018 held in guaranteed investment certificates bearing interest at 0.85% maturing March 2010.

The following are the contractual undiscounted financial liabilities as at August 31, 2009:

	Total	less than 1 year	2 -3 years	4 -5 years	greater than 5 years
Accounts payable and accrued liabilities	610,224	610,224	-	-	-
Amounts due to shareholders	75,470	75,470	-	-	-

In addition, the Corporation has an authorized revolving line of credit available of \$100,000, with \$nil amounts outstanding as at August 31, 2009. The revolving line of credit bears an interest rate of prime plus 0.25% and is repayable on demand and secured by a limited personal guarantee and a guaranteed investment certificate of a shareholder.

Credit Risk

Credit risk arises from the potential that a counterparty to a financial instrument fails to meet its contractual obligations. The Corporation manages credit risk associated with the cash and cash equivalents and short-

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term investments by investing primarily in short-term investments issued by Schedule 1 Canadian banks and government investment instruments. While the Corporation does not hold asset-backed securities directly, these parties may be exposed in varying degrees to asset-backed securities and U.S. sub-prime mortgages. The Corporation regularly monitors its investments to manage this potential risk.

The risk may also affect accounts receivable. In normal course of business, the Corporation reviews new customer credit history and conducts review of existing counterparty financial positions. Provisions are established and maintained with regards to potential losses. The trade receivable distribution of the Corporation is as follows:

	Total	Current 1 – 90 Days	91 – 120 days	121 +days
Accounts receivable	214,976	185,321	15,425	14,230

The Corporation maintains an Export Development Canada insurance policy on all foreign receivables outside of the United States. Over the past years, the Corporation has not suffered any material losses related to credit risk.

The Corporation also is exposed to a counterparty credit risk with respect to royalty rights agreements (note 8).

Foreign Currency Risk

Foreign currency risk is the risk that the fair value of future cash flows of financial instruments will fluctuate because of changes in foreign currency exchange rates. The Corporation conducts a significant portion of its business activities in the United States, in US dollars. Cash and cash equivalents, accounts receivables, accounts payables and accrued liabilities that are denominated in foreign currencies will be affected by the changes in the exchange rates between the Canadian dollar and US dollar.

The US dollar carrying amounts subject to exposure to foreign currency risk as at August 31, 2009 are as follows:

	US Dollars
Cash and cash equivalents	186,424
Accounts receivable	117,988
Accounts payable and accrued liabilities	(215,447)

Based on the above exposures as at August 31, 2009, and assuming that all other variables remain constant, a 5% depreciation or appreciation of the Canadian dollar against the US dollar would result in a decrease or increase in the Corporation's net loss and comprehensive loss of approximately \$4,878 applicable to the US dollar exposure.

The Corporation currently does not enter into any derivative financial instruments to reduce its exposure to foreign currency risk.

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Commodity Price Risk

Commodity price risk is the risk that the fair value of future cash flows of financial instruments will fluctuate because of changes in commodity oil and gas prices. Production revenues, production over-riding royalties and Powerwave license fees based on producer production revenues will be affected by the changes in the oil and gas prices.

Based on the above exposure as at August 31, 2009, and assuming that all other variables remain constant, a 10% decrease or increase in commodity prices would result in a decrease or increase in the Corporation's net loss and comprehensive loss of approximately \$13,201 applicable to the commodity price fluctuation.

The Corporation does not use any derivative financial instruments to reduce its exposure to commodity price risk.

21 Guarantees

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

22 Related party transactions

The Corporation had the following related party transactions:

- a) During the year ended August 31, 2009, directors exercised 585,000 incentive stock options at prices ranging from \$0.44 to \$0.55 for aggregate consideration \$282,400.
- b) During the year ended August 31, 2009, directors were issued 500,000 incentive stock options at \$0.54. The incentive stock options are subject to the Stock Option Plan, and expire on January 5, 2014.
- c) In a prior year, the Corporation entered into the Option Agreement to acquire ninety percent (90%) of the working interest in the production, equipment and mineral leases of known as the Chelsea-Alluwe Waterflood Leases in Rogers County, Oklahoma ("Leases"). Boulder Oil, LLC, a related limited liability company executed the Option Agreement on behalf of the Corporation by paying US\$165,000 of the purchase price in exchange for a sixty percent (60%) working interest in the Leases. Each working interest party is responsible for operating and field development costs in proportions relative to their working interest percentage.

During the fiscal year ending August 31, 2006, the Corporation became the Operator of Record. As the Operator, the Corporation is initially responsible for all operating expenses and development costs, which are then charged back to each non-operating partner relative to their working interest percentage. Boulder

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however, as a non-operating partner, exercised its non-participation right under the Joint Operating Agreement. Under the Joint Operating Agreement, the Corporation will receive all production revenues from production wells until such time that the Corporation is repaid 200% of the costs incurred, after which, production revenues will revert back to the working interest proportions. As at August 31, 2009, amounts recorded under non-participation amounts owed totalled \$735,014 (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.

23 Subsequent events

Subsequent to the year ended August 31, 2009, directors were issued 260,000 incentive stock options at \$0.72. The stock options are subject to the Stock Option Plan, and expire on September 4, 2014.

Additionally, subsequent to the year ended August 31, 2009, employees and a director exercised 349,133 incentive stock options at prices ranging from \$0.45 to \$0.97 for aggregate consideration \$170,923. Of the stock options exercised, 265,000 were exercised by a director of the Corporation at a price of \$0.45 for total consideration of \$119,205.

Additionally, subsequent to the year ended August 31, 2009, 5,000 employee stock options were terminated with an exercise price of \$2.90.