

Unaudited Consolidated Financial Statements of

WAVEFRONT ENERGY AND ENVIRONMENTAL SERVICES INC.

For the First Quarter ended November 30, 2008 and 2007

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WAVEFRONT ENERGY AND ENVIRONMENTAL SERVICES INC.

Consolidated Balance Sheets

	As at November 30, 2008 \$ (Unaudited)	As at August 31, 2008 \$ (Audited – note 2)
Assets		
Current assets		
Cash and cash equivalents	21,354,581	22,435,719
Accounts receivable	557,888	758,180
Prepaid and deferred expenses	267,697	36,303
Inventory	84,357	86,339
	<hr/>	<hr/>
	22,264,523	23,316,541
Deposits	71,425	62,136
Property, plant and equipment (notes 5, 6 and 15)	4,670,115	4,991,092
Intangible assets (note 7)	2,001,399	2,570,096
Goodwill	988,862	988,862
	<hr/>	<hr/>
	29,996,324	31,928,727
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	1,463,719	1,068,559
Current portion of amounts due to shareholders	140,917	137,985
Current portion of obligations under capital leases	21,182	24,049
	<hr/>	<hr/>
	1,625,818	1,230,593
Due to shareholders	37,121	73,469
Asset retirement obligation (note 8)	178,623	174,562
	<hr/>	<hr/>
	1,841,562	1,478,624
Shareholders' Equity		
Share capital (note 10)	49,613,430	49,319,704
Contributed surplus	2,748,781	2,642,913
Deficit	(24,207,449)	(21,512,514)
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	28,154,762	30,450,103
	<hr/>	<hr/>
	29,996,324	31,928,727
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WAVEFRONT ENERGY AND ENVIRONMENTAL SERVICES INC.

Consolidated Statements of Loss, Comprehensive Loss and Deficit (Unaudited)

	Three Month Period Ended November 30,	
	2008	2007
	\$	\$
Revenue		
Service revenue and royalties	240,102	201,285
Production revenue and operator fees, net of taxes and royalties	39,323	30,630
Interest and other	151,530	52,903
	<u>430,955</u>	<u>284,818</u>
Expenses		
Direct costs	92,710	143,273
Write-down of oilfield property, plant and equipment, and non-participation amounts due	1,133,936	-
General and administrative expenses	916,482	655,785
Write-down of intangible assets	555,212	-
Selling, marketing and travel	299,789	183,720
Stock-based compensation (note 10)	154,594	97,238
Amortization, depreciation, depletion and accretion expenses	121,030	110,211
Research and development	41,965	144,379
Listing and public company fees	21,397	51,461
Interest expense	4,659	1,251
Gain on disposal of property, plant and equipment	(405)	-
Foreign exchange gain	(215,479)	(84,229)
	<u>(2,694,935)</u>	<u>(1,018,271)</u>
Net loss and comprehensive loss for the period	(2,694,935)	(1,018,271)
Deficit – Beginning of period	(21,512,514)	(14,567,335)
Deficit – End of period	(24,207,449)	(15,585,606)
Loss per common share (note 13)		
Basic and diluted	<u>(0.04)</u>	<u>(0.02)</u>

WAVEFRONT ENERGY AND ENVIRONMENTAL SERVICES INC.

Consolidated Statements of Cash Flows (Unaudited)

	Three Month Period Ended November 30,	
	2008	2007
	\$	\$
Cash provided from (used in)		
Operating activities		
Net loss for the period	(2,694,935)	(1,018,271)
Items not affecting cash		
Write-down of oilfield property, plant and equipment, and non participation amounts due	1,133,936	-
Write-down of intangible assets	555,212	-
Stock-based compensation (note 10)	154,594	97,238
Amortization, depreciation, depletion and accretion expenses	121,030	110,211
Gain on disposal of property, plant and equipment	(405)	-
	<u>(730,568)</u>	<u>(810,822)</u>
Net change in non-cash working capital items	<u>356,751</u>	<u>158,358</u>
	<u>(373,819)</u>	<u>(652,464)</u>
Financing activities		
Proceeds from option exercises	245,000	-
Repayment of amounts due to shareholder	(33,416)	(37,909)
Repayment of obligations under capital leases	(2,867)	(9,178)
	<u>208,717</u>	<u>(47,087)</u>
Investing activities		
Purchase of property, plant and equipment	(898,392)	(276,902)
Intangible costs	(18,219)	(223,349)
Proceeds on disposal of property, plant and equipment	575	-
	<u>(916,036)</u>	<u>(500,251)</u>
Decrease in cash and cash equivalents	(1,081,138)	(1,199,802)
Cash and cash equivalents – Beginning of period	22,435,719	5,430,949
Cash and cash equivalents – End of period	21,354,581	4,231,147
Supplementary information		
Interest paid	<u>4,693</u>	<u>9,190</u>

WAVEFRONT ENERGY AND ENVIRONMENTAL SERVICES INC.

Notes to Consolidated Financial Statements (Unaudited)

Three Month Period Ended November 30, 2008

1. DESCRIPTION OF BUSINESS

Wavefront Energy and Environmental Services Inc. (the "Corporation") is incorporated under the Canada Business Corporations Act. The Corporation's principal business activities involve the licensing and utilization of the Corporation's patented process for the enhancement and improvement of oil recovery and oil well stimulation (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. BASIS OF PRESENTATION

These interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") for interim financial statements using the same accounting policies as set out in the financial statements of the Corporation for the year ended August 31, 2008 except for the new accounting pronouncements adopted during the period as described in note 3. Omitted from these statements are certain information and note disclosures normally included in the annual consolidated financial statements prepared in accordance with Canadian GAAP. These interim consolidated financial statements should be read in conjunction with the financial statements of the Corporation for the year ended August 31, 2008.

Certain of the prior period and year amounts have been reclassified to conform to the presentation adopted for the current period.

3. CHANGE IN ACCOUNTING POLICIES

Effective September 1, 2008 the Corporation adopted the recommendations of Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1535, Capital Disclosures, Section 3031, Inventories, Section 3862, Financial Instruments – Disclosures, and Section 3863, Financial Instruments – Presentation. The application of these new standards did not have a significant effect on the Corporation's financial position or results of operations in the current period presented.

Capital Disclosures

Section 1535, "Capital Disclosures," establishes standards for disclosure about a company's capital and how it is managed in order that a user of the financial statements may evaluate the company's objectives, policies, and processes for managing capital.

Inventories

Section 3031, "Inventories," establishes that inventories should be measured at the lower of cost and net realizable value, and also provides guidance on the issues of cost determination and inventory related disclosures.

Financial Instruments – Disclosure and Presentation

Sections 3862 "Financial Instruments – Disclosures" and Section 3863 "Financial Instruments – Presentation" replace Section 3861 "Financial Instruments – Disclosures and Presentation" Section 3862 requires entities to provide disclosures in the their financial statements that enable users to

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evaluate the significance of financial instruments on the entity's financial position and its performance and the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and how the entity manages those risks. Section 3863 establishes standards for presentation of financial instruments and nonfinancial derivatives. It deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equities, the classification of related interest, dividends, losses and gains, and circumstances in which financial assets and liabilities are offset.

Going concern

The CICA Handbook Section 1400, "General Standards of Financial Statement Presentation" was amended to include requirements to assess and disclose an entity's ability to continue as a going concern. The requirements of this amended Section were adopted by the Corporation on September 1, 2008. The adoption of this Section had no impact on the Corporation's financial position.

4. RECENT ACCOUNTING PRONOUNCEMENTS ISSUED AND NOT YET ADOPTED

Goodwill and Intangible Assets

The CICA issued a new standard, Section 3064, "Goodwill and Intangible Assets". Standards concerning goodwill are unchanged from the previous Handbook Section 3062; however, this new section provides guidance for the treatment of preproduction and start up costs and requires these costs to be expensed as incurred. This new section applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2008.

International financial reporting standards

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

5. PROPERTY, PLANT and EQUIPMENT

	<u>As at November 30, 2008</u>			<u>As at August 31, 2008</u>
	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>	<u>Net Book Value</u>
Oilfield property, plant and equipment	\$ 593,721	\$ 14,770	\$ 578,951	\$ 1,120,666
Non-participation amounts due	766,512	-	766,512	1,085,773
Equipment	3,639,468	542,500	3,096,968	2,597,603
Computer equipment	229,834	146,803	83,031	87,703
Computer software	287,968	245,247	42,721	43,905
Automotive equipment	105,677	31,592	74,085	30,558
Office furniture	73,320	45,473	27,847	24,884
	<u>\$ 5,696,500</u>	<u>\$ 1,026,385</u>	<u>\$ 4,670,115</u>	<u>\$ 4,991,092</u>

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Three Month Period Ended November 30, 2008

Property, plant and equipment includes oilfield property, plant and equipment of \$219,636 related to unproved properties in Young and Taylor County (note 6) and therefore not subject to depreciation, and depletion, and equipment under construction of \$1,845,685 (August 31, 2008 - \$1,334,942), which is not being depreciated. Property, plant and equipment also include assets under capital leases with a cost of \$56,232 (August 31, 2008 - \$56,232) and a net book value of \$27,923 (August 31, 2008 - \$29,392).

Depreciation expense for the period ended November 30, 2008 was \$89,326 (November 30, 2007 - \$87,134), including depreciation relating to equipment under capital leases of \$1,470 (November 30, 2007 - \$12,207). Depletion expense for Rogers County oilfield property plant and equipment (note 6) totaled \$13,755 (November 30, 2007 - no depletion or depreciation of Rogers County oilfield property plant and equipment was recorded as the oilfield property was classified as an unproved property).

During the period ended November 30, 2008, there was a material decline in commodity prices, so in accordance with the CICA recommendations for impairment for unproved properties under full cost accounting guidelines, the Corporation recorded a write-down of its Rogers County oilfield property, plant and equipment and non-participation amounts due by \$1,133,936 (August 31, 2008 - \$2,095,242). The fair value was determined based on estimated present value of future cash flows calculated using internal production estimates and closing NYMEX futures prices as at November 30, 2008. 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 14). The calculated amounts to be written-down, and the resulting carrying value of the Rogers County assets, may not be indicative of the actual values. Additionally, given the volatility in the financial and commodity markets, the oilfield property, plant and equipment and associated assets may be materially affected in the near term by further changes in commodity prices.

6. 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.

During the fiscal year ending August 31, 2006, the Corporation became the operator of record of the Rogers County venture, and Boulder Oil, LLC ("Boulder"), as a non-operating partner and related party (refer to note 15 "related party transactions), exercised its non-participation rights in the Joint Operating Agreement. As the Operator, the Corporation is initially responsible for all operating expenses and development costs, which are then charged back to each non-operating partner relative to their working interest percentage. Boulder however, as a non-operating partner, exercised its non-

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Three Month Period Ended November 30, 2008

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.

During the period ended November 30, 2008, there was a material decline in commodity prices, so in accordance with the CICA recommendations for impairment for unproved properties under full cost accounting guidelines, the Corporation realized a write-down of its Rogers County non-participation amounts due by \$572,039 (August 31, 2008 – \$1,056,989). The fair value was determined based on estimated present value of future cash flows calculated using internal production estimates and NYMEX futures prices as at November 30, 2008. 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 14). The calculated amounts to be written-down, and the resulting carrying value of the Rogers County assets, may not be indicative of the actual values. Additionally, given the volatility in the financial and commodity markets, the oilfield property, plant and equipment and associated assets may be materially affected in the near term by further changes in commodity prices.

Included in oilfield property, plant and equipment is the Corporation's proportionate share of oil well development costs totaling \$560,294 (August 31, 2008 - \$1,003,695) related to the Rogers County venture.

Amortization expense for the period ended November 30, 2008 totaled \$13,755 (August 31, 2008 – Nil as the property was classified as unproven) on the Rogers County oilfield property, plant and equipment.

The Corporation has recognized production revenue of \$15,308 (November 30, 2007 – \$23,309) related to the Rogers County venture. Production revenue in the amount of \$25,899 originally attributable to Boulder has been recorded against the cost of the non-participation amounts due (November 30, 2007 – \$38,406).

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 period ended November 30, 2008 (November 30, 2007 – Nil).

Taylor County

During the year ended August 31, 2008, the Corporation acquired fifty (50%) percent working interest in certain mineral leases in Taylor County, Texas for total consideration of \$39,768. No costs were incurred on these leases for the period ended November 30, 2008.

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Notes to Consolidated Financial Statements (Unaudited)

Three Month Period Ended November 30, 2008

7. INTANGIBLE ASSETS

	Three Months Ended November 30, 2008			Year Ended August 31, 2008
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Royalty rights	\$ 1,719,872	\$ 82,714	\$ 1,637,158	\$ 2,207,583
Fully-paid up license	106,990	17,308	89,682	91,435
Patents	358,425	84,623	273,802	270,305
Incorporation costs	3,451	2,694	757	773
	\$ 2,188,738	\$ 187,339	\$ 2,001,399	\$ 2,570,096

Amortization expense for the period ended November 30, 2008 totaled \$31,704 (November 30, 2007 - \$9,592).

Greentree Gas and Oil Ltd. royalty rights

In a prior year, the Corporation entered into a "Farm-in" Agreement with Greentree Gas & Oil Ltd. to develop Greentree's Rodney South oil field lease. Under the Farm-in Agreement the Corporation will supply its Powerwave technology and fund up to \$2.25 million for initial capital expenditures and working capital requirements. Additional development costs are expected to be financed from cash from operations. Greentree will act as the Operator of the lease and will contribute the petroleum leases, existing seismic and geological data, and the use of its existing field facilities. Greentree will also provide its field maintenance staff, administrative, and office support staff. In consideration for each party's contributions, cash flows from operating activities will be allocated 70% and 30% to the Corporation and Greentree, respectively, until payout of the Corporation's initial \$2.25 million capital investment. Subsequent to payout, cash flow from operating activities will be allotted 50% to the Corporation and Greentree respectively.

As at November 30, 2008, the Corporation has paid Greentree \$2,177,611 (August 31, 2008 - \$2,168,834) and accrued \$8,778 (August 31, 2008 - nil) under the Farm-in Agreement. The Corporation is obligated to the remaining balance of up to \$72,389 under the Farm-in Agreement. The resulting asset is classified as finite life intangible asset.

Amortization expense for the period ended November 30, 2008 totaled \$23,991 (November 30, 2007 - nil) on the gross over-riding royalty rights.

During the period ended November 30, 2008, there was a material decline in commodity prices, so in accordance with the CICA recommendations for impairment for long-lived assets, the Corporation realized a write-down of its Farm-in Royalty Rights by \$555,212 (2007 - nil). The fair value was determined based on estimated present value of future cash flows calculated using internal production estimates and NYMEX futures prices as at November 30, 2008. 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 14). The calculated amounts to be written-down, and the resulting carrying value of the Rogers County assets, may not be indicative of the actual values. Additionally, given the volatility in the financial and commodity markets, the oilfield property, plant and equipment and associated assets may be materially affected in the near term by further write-downs.

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Notes to Consolidated Financial Statements (Unaudited)

Three Month Period Ended November 30, 2008

8. ASSET RETIREMENT OBLIGATION

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

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

	Three Months Ended November 30, 2008		Year Ended August 30, 2008
	\$		\$
Asset retirement obligations – Beginning of period	174,562		74,890
		6	
Liabilities incurred	-		64,494
Accretion expense	4,061		35,178
			<hr/>
Asset retirement obligations – End of period	178,623		174,562

The total undiscounted amount of estimated cash flows required to settle the obligation is US \$334,028 (August 31, 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-nine years in the future and will be funded from general corporate resources at the time of the retirement and removal.

9. COMMITMENTS

a) Operating leases

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

	\$
2009	<hr/> 94,942

b) Greentree Gas & Oil Farm-in Agreement

The Corporation obligation related to the Greentree Farm-in Agreement (note 7) is the remaining balance of up to \$72,389.

c) The Corporation is committed to the purchase of inventory in the amount of \$571,500 as at November 30, 2008 from a third party supplier.

WAVEFRONT ENERGY AND ENVIRONMENTAL SERVICES INC.

Notes to Consolidated Financial Statements (Unaudited)

Three Month Period Ended November 30, 2008

10. SHARE CAPITAL

The Corporation's authorized and issued share capital as at November 30, 2008 and August 31, 2008 is as follows:

Authorized

Unlimited common shares without par value

Issued common shares

	Three Months Ended November 30, 2008		Year Ended August 31, 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⁾	485,000	293,726	552,603	461,680
Warrants exercised ⁽⁴⁾	-	-	7,313,363	9,799,732
Balance – End of year	71,549,808	49,613,430	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 485,000 stock options exercised during the year period ended November 30, 2008, were at a prices ranging from \$0.50 to \$0.55. The 552,603 stock options exercised during the year ended August 31, 2008 were at prices ranging from \$0.40 to \$1.76.

⁽⁴⁾ In connection with the December 24, 2007 and the January 31, 2008 private placements noted above, 7,313,363 common share purchase warrants ("Warrant") were granted and exercised at a price of \$1.25 per Warrant for gross proceeds of \$9,141,704.

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Notes to Consolidated Financial Statements (Unaudited)

Three Month Period Ended November 30, 2008

Stock-based compensation plan

The Corporation maintains an Employee, Director, Officer and Consultant Stock Option Plan under which the Corporation may grant options for up to 10,711,558 shares of the Corporation at an exercise price equal to or greater than the market price of the Corporation's stock at the date of grant. All options awarded are exercisable for a period of five years and vest in equal tranches at three (3) month intervals over a period of eighteen (18) months.

A summary of the status of the Corporation's stock option plan as at November 30, 2008 and August 31, 2008, and the changes ended on those dates are presented below:

Stock options	Three Months Ended November 30, 2008		Year Ended August 31, 2008	
	Number #	Weighted average exercise price \$	Number #	Weighted average exercise price \$
Outstanding – Beginning of period	3,015,170	1.30	3,017,773	1.30
Granted	-	-	620,000	2.08
Exercised	(485,000)	0.51	(552,603)	0.66
Cancelled	-	-	(70,000)	0.81
Outstanding – End of period	2,530,170	1.45	3,015,170	1.60

Exercise price \$	Options outstanding		Options exercisable	
	Number outstanding #	Weighted average remaining contractual life in years	Number outstanding #	Weighted average remaining contractual life in years
2.95	725,000	2.1	725,000	2.1
2.90	160,000	4.6	26,668	4.6
2.57	200,000	2.5	200,000	2.5
2.05	200,000	4.3	66,667	4.3
1.76	100,000	2.7	100,000	2.7
1.65	210,000	4.2	105,000	4.2
1.40	50,000	4.2	25,000	4.2
0.97	120,170	3.3	120,170	3.3
0.50	50,000	0.1	50,000	0.1
0.45	265,000	0.8	265,000	0.8
0.44	210,000	0.4	210,000	0.4
0.40	240,000	1.8	240,000	1.8
	2,530,170	2.4	2,133,505	2.1

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Notes to Consolidated Financial Statements (Unaudited)

Three Month Period Ended November 30, 2008

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.

During the periods ended November 30, 2008 and 2007 no incentive stock options were granted. During the three month ended November 30, 2008, the Corporation incurred \$154,594 (November 30, 2007 - \$97,238) in compensation expense relating to outstanding employee stock options.

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

Escrow shares

The balance of all common shares held in escrow as at November 30, 2008, was 360,000 (August 31, 2008 – 360,000).

11. MANAGEMENT OF CAPITAL

As at November 30, 2008, the Corporation's capital is composed of its share capital, cash and cash equivalents of \$21,354,581 and an available revolving line of credit of \$100,000 that has a current balance of nil.

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.

12. FINANCIAL INSTRUMENTS

Financial instruments consists 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 related to any indebtedness.

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 interim 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 at point-in-time estimates that may change in subsequent reporting periods due to market conditions or other factors.

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Notes to Consolidated Financial Statements (Unaudited)

Three Month Period Ended November 30, 2008

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 obligation as they come due. The Corporation has sustained substantial losses and negative cash flows. As at November 30, 2008, the Corporation has \$21,354,581 of cash, cash equivalents and short-term investments.

Cash includes \$19,500,000 held in guaranteed investment certificates bearing interest at 2.22% maturing on December 29, 2008.

The following are the contractual undiscounted financial liabilities as at November 30, 2008:

	Total	less than 1 year	2 – 3 years	4 – 5 years	greater than 5 years
Accounts payable and accrued liabilities	1,463,719	1,463,719	-	-	-
Amounts due to shareholders	178,038	140,917	37,121	-	-

In addition, the Corporation has an authorized revolving line of credit available of \$100,000, with nil amounts outstanding as at November 30, 2008. 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 cash and cash equivalents and short-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-back securities directly, these parties may be exposed in varying degrees to asset-back 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 the normal course of business, the Corporation reviews new customer credit history and conducts reviews of existing counterparty financial position. Provisions are established and maintained with regards to potential losses. As at November 30, 2008, 6 customers represents 82.8% of the accounts receivable. The trade receivable distribution of the Corporation is as follows:

	Total	Current 1 -90 days	91 – 120 days	121 + days
Accounts receivable	309,646	191,828	13,498	104,321

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The Corporation maintains an Export Development Canada insurance policy on all foreign receivables. 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 the Royalty Right agreements (note 7).

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 dominated 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 November 30, 2008 is as follows:

	US dollars
Cash and cash equivalents	183,696
Accounts receivable	37,000
Accounts payable and accrued liabilities	(334,039)

Based on the above exposures as at November 30, 2008, and assuming that all other variables remain constant, a 5% depreciation or appreciation of the Canadian dollar against the US dollar would resulting in a decrease or increase in the Corporation's net loss and comprehensive loss of approximately \$7,011 applicable to the US dollar exposure.

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

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. In respect to accounts payable and accrued liabilities, lines of credit, and amounts due to shareholders, the Corporation is not exposed to interest rate fluctuation since terms to maturity are short or interest rates are fixed.

The Corporation's accounts receivable however, will be affected by changes in interest rate fluctuation. Based on this exposures as at November 30, 2008, and assuming that all other variables remain constant, a 500 basis point interest rate decrease or increase would resulting in a decrease or increase in the Corporation's net loss and comprehensive loss of approximately \$119 applicable to the interest rate fluctuation.

The Corporation does not use any derivative financial instruments to reduce its exposure to interest rate 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 November 30, 2008, 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 \$6,262 applicable to the commodity price rate fluctuation.

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

13. LOSS PER SHARE

The Corporation uses the treasury stock method to calculate diluted loss per share. Under the treasury stock method, the numerator remains unchanged from the basic loss per share calculation, as the assumed exercise of the Corporation's share purchase warrants and stock options do not result in an adjustment to income. The weighted average number of common shares outstanding was 71,386,072 (November 30, 2007 - 48,572,112).

Diluted loss per share is computed by giving effect to the potential dilution that would occur if stock options and common share purchase warrants were exercised. The treasury stock method assumes that the proceeds received from the exercise of the "in-the-money" stock options and common share purchase warrants are used to repurchase common shares at the average market price for the period ended November 30, 2008.

In determining diluted loss per share, the weighted average number of shares outstanding was increased by 367,045 (November 30, 2007 - 636,335) 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 71,753,117 (November 30, 2007 - 49,208,447). As the result was anti-dilutive in both periods ending November 30, 2008 and 2007, no adjustments were made to net loss to calculated diluted loss per share.

14. 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.

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Three Month Period Ended November 30, 2008

Three months ended November 30, 2008	Equipment and technology \$	Oil and gas properties \$	Corporate and other \$	Total \$
Revenue	236,917	30,834	163,204	430,955
Net loss for the period	(740,036)	(1,860,479)	(94,420)	(2,694,935)
Segment assets	5,197,949	3,498,605	21,299,770	29,996,324
Capital expenditures	517,028	382,027	17,556	916,611

Three months ended November 30, 2007	Equipment and technology \$	Oil and gas properties \$	Corporate and other \$	Total 2006 \$
Revenue	201,085	30,831	52,903	284,818
Net loss for the period	(615,719)	(187,422)	(215,130)	(1,018,271)
Segment assets	6,612,462	4,425,904	4,263,931	15,302,297
Capital expenditures	300,687	198,683	881	500,251

Geographic Information	Three months ended November 30, 2008		Three months ended November 30, 2007	
	Revenue \$	Total assets \$	Revenue \$	Total assets \$
Canada	340,909	28,134,877	253,987	10,779,896
United States	90,046	1,861,447	30,831	4,522,401
	430,955	29,996,324	284,818	15,302,297

During the period ended November 30, 2008, the Corporation recorded revenue from twenty-five customers (2007 – twenty-five customers). Sales in 2008 from the top three customers amounted to \$81,192, \$58,842 and \$36,292, which represented 16.3%, 11.8% and 7.3%, respectively of total revenue. Sales in 2007 from the top three customers amounted to \$64,788, \$43,616, and \$37,406, which represented 22.7%, 15.3% and 13.1%, respectively of total revenue.

15. RELATED PARTY TRANSACTIONS

During the period ended November 30, 2008, the Corporation had the following related party transactions:

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- a. Refer to note 6 “Rogers County” for complete details with regard of the nature of the related party transactions with Boulder Oil LLC.

As at November 30, 2008, amounts recorded under non-participation amounts due by Boulder totaled \$766,512 (August 31, 2008 - \$1,085,773). However, as at November 30, 2008 total amounts due to the Corporation by Boulder totaled \$2,395,540 (August 31, 2008 - \$2,142,763). 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. There are no other contractual obligations for Boulder to repay the Corporation other than the assignment of production revenues.

As at November 30, 2008, production revenues from Rogers County production wells that reduced non-participation amounts due by Boulder totaled \$25,899 (November 30, 2007 – \$38,406).

- b. Of the stock options exercised during the period ended November 30, 2008, 375,000 were exercised by directors of the Corporation. Of the stock options exercised during the period ended November 30, 2007, 392,755 were exercised by directors of the Corporation.

16. 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 product offering, in relation to oilfield services, are rental and sale of downhole equipment. The target geographical area of the product offering is Alberta and Saskatchewan. Due to temperature influences on ground conditions, the months of December, March and April have lower activity.

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

17. COMPARATIVE FIGURES

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