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**Wavefront Energy and Environmental Services Inc.**

- Quarterly Report**
- For the period
- year ended
- November 30, 2008**

The accompanying unaudited interim financial statements of the Corporation have been prepared by and are the responsibility of the Corporation's management.

The following Management Discussion and Analysis ("MD&A") of financial results should be read in conjunction with the unaudited interim financial statements and the accompanying notes for the period ended November 30, 2008 the audited financial statements and accompanying notes thereto, and MD&A for the year ended August 31, 2008. This MD&A is based on information available to January 23, 2009. Additional information on Wavefront Energy and Environmental Services Inc.'s (the "Corporation" or "Wavefront") is available on SEDAR at [www.sedar.com](http://www.sedar.com).



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

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### Management's Responsibility

The management of Wavefront Energy and Environmental Services Inc. ("Wavefront" or "the Corporation") is responsible for the accuracy of the information disclosed in the Management Discussion and Analysis. The interim and annual Management Discussion and Analysis of Financial Conditions and Results from Operations are also reviewed and approved by the Audit Committee of the Corporation's Board of Directors. This Management Discussion and Analysis of Financial Conditions and Results from Operations contain information available to January 23<sup>rd</sup>, 2009.

### Non-GAAP Measures

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

### Overview of Business

The principal business of Wavefront is the development and commercialization of innovative technologies and processes for injection and recovery of fluids in both the environmental and energy sectors. At the core of the Corporation's strategic value proposition is its patented fluid flow process marketed in the energy sector as Powerwave<sup>TM</sup> and in the environmental sector as Primawave<sup>TM</sup> (collectively known as 'PW' or "the technology").

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

Powerwave has been successfully applied in heavy and light oil development. Powerwave has also been proven to be an effective method of increasing injection and production flow rates, production well efficiency, and oil recovery ratios in a wide variety of configurations through the following techniques:

#### *Short-term Well Intervention Applications*

- Well bore clean-up
- Chemical and acid treatments
- Remedial sand control

#### *Long-term Stimulation Applications*

- Add-on to all flooding approaches (water, CO<sub>2</sub>, surfactant, polymer) to maximize recovery factor and extend field life
- Add-on to water disposal wells

Groundwater quality remains a concern across the globe and the remediation of groundwater contaminants continues to be a growing industry. Wavefront provides Primawave as a value added approach to service and consulting companies tasked with site clean-up. Primawave has been verified as an environmental remedial strategy by Environment and Industry Canada. The following are some applications of Primawave in the environmental sector:

- Enhancement of "pump-and-treat" systems to extract contaminants; a similar approach to an oilfield waterflood;



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- Improved injection of “*in situ*” or “in-ground” remedies, such as the injection of biological agents, chemical compounds or oxidants to neutralize groundwater contaminants; and,
- Rehabilitation of water wells.

Whether employed in the oil or environmental sector the method of implementation of PW is specific to suit site characteristics and depends upon, among other things, the characteristics of the fluid pressure pulse created. Part of Wavefront's value proposition is to monitor and model PW efficacy in order to maximize its benefits. Thus, Wavefront's intellectual property strategy is to maintain absolute control over its PW modeling simulator known as the “PW Analyzer”. The simulator enables Wavefront to generate estimations on potential outcomes of PW programs over a wide and varied range of geological conditions and to provide those estimations to customers as a means of planning PW implementation strategies.

### Energy and Environmental License Agents of PW

- The Corporation continues to maintain Technology Licensing and Collaboration Agreements with Halliburton Energy Services Inc. (“Halliburton”). The License Agreement provides Halliburton non-exclusive rights in Canada and the United States to market Powerwave and exclusive rights outside of Canada and the United States. In consideration of the exclusive component of the Licensing Agreement, Wavefront entered into a Collaboration Agreement which allows both parties to jointly research, develop and manufacture Powerwave systems for the improvement or enhancement of oil recovery, oil well stimulation and oilfield disposal methodologies.
- The Corporation maintains a non-exclusive Technology License Agreement with Environmental Resources Management (“ERM”), and utilizes outside service contractors, companies providing remedial fluids, as well as outside sales agents to grow Primawave revenue in the environmental sector.

### OVERALL RESULTS FROM OPERATIONS

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

In the fiscal 2008 year end report we highlighted a highly successful Powerwave project in Alberta. In this first quarter report of 2009 we feature two Primawave projects. The first project relates to the use of Primawave to inject a “gritty, milk-like” liquid into the subsurface at an active gasoline service station in Orlando, FL. The second project is the use of Primawave in conjunction with conventional oilfield waterflooding in a “pump-and-treat” program at a former 80-acre oil refinery and terminal operated by a major integrated oil and gas producer.

In the environmental sector “site remediation” is generally understood to be the “cleaning-up” of contaminants in either a soil or in groundwater. A “contaminated site” can be defined as a specific area which has been contaminated by some form of activity.

Contamination of a site may stem from:

1. Leakage of storage or disposal sites (i.e. oil terminal sites);



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2. Accidental spills;
3. Accumulation of contaminants from point or non-point sources;
4. Accidental release of contaminants from industrial or commercial activities;
5. Legal or illegal disposal of liquid or solid substances; and,
6. Abandonment of buildings or properties.

Examples of contaminated sites include but are not limited to: unregulated former disposal sites, industrial properties (refineries, chemical plants, automotive facilities), electrical facilities (PCB spills), above and below ground fuel storage sites, municipal and industrial landfills, wood preserving sites, and military training areas.

Contaminants are generally organized into five categories:

1. Oxygen-depleting organics and nutrients;
2. "Toxic" organics;
3. Metals;
4. Radioactives; and,
5. Nuisance substances.

There are two basic approaches for the remediation of contaminated sites: *in-situ* and *ex-situ* remediation. *In-situ* remediation involves a remedial fluid combined with a method of delivering the treatment liquid to the contaminant in the ground. *Ex-situ* involves the removal of the contaminant for treatment. A common form of *ex-situ treatment* is referred to as pump-and-treat. *In-situ* methods are generally cheaper than *ex-situ* methods because of the handling costs.

In *in-situ* remediation, traditional approaches have historically focused extensively on chemistry and biology, and the physical distribution of the agent in the aquifer has not received as much attention. For many remediation products, effective distribution or contact with the contaminant mass is crucial to successful remedial injection however flow into the aquifer often occurs through preferential pathways therefore the remediation product may only reach a limited area. Additionally, due to low inflow conditions of some aquifers injected products often migrate to the surface adjacent to the injection rod string (known as "product surfacing" or "blow-by"). Product surfacing not only substantially decreases the efficiency of the remedial program but also adds additional costs to the overall site remediation budget.

Primawave provides for more uniform distribution of injected fluids thus reducing the worst effects associated with preferential flow and dramatically increasing the contact of remedial products with the contaminant. Because Primawave allows fluids to enter the aquifer more readily the incidence of product surfacing is also mitigated.

Figures 1 and 2 below present data from Orlando, FL where Primawave was used in an *in-situ* remedial project to inject a chemical oxidant. Prior to the use of Primawave three previous injection events, November 12, 2007; November 27, 2007; and, January 23, 2008 respectively resulted in poor performance and remediation objectives not being met. Problematic to these injection events were the incidence of product surfacing and the varied range of remedial product injected per point. On February 12, 2008 Primawave was employed as the injection method to address the above two constraints. As shown in Figure 1, Primawave eliminated the issue of product surfacing allowing all remedial products to be injected into the aquifer. Primawave also improved the volume of remedial product injected per point (Figure 2). Given the success of Primawave at the site all subsequent injection events will employ Primawave.

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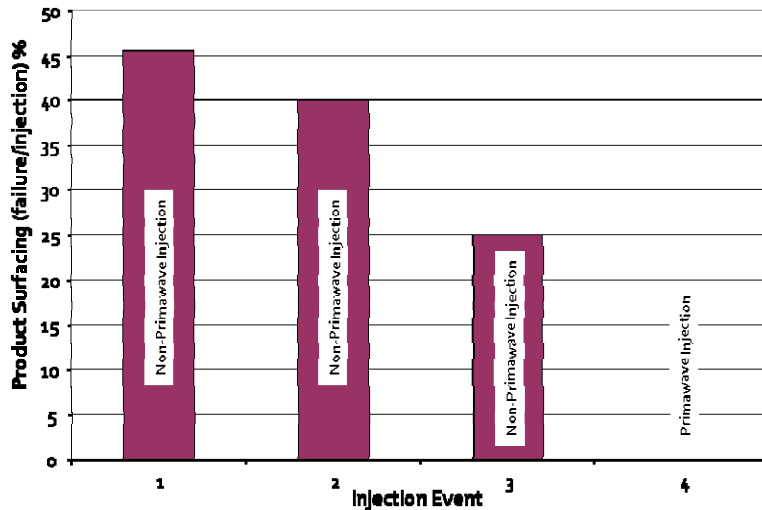


Figure 1: Primawave's Effect on Product Surfacing at Orlando, FL

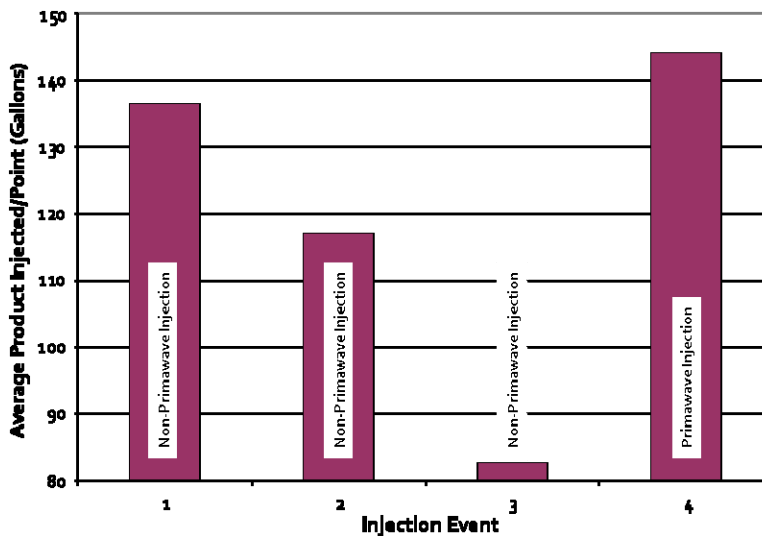


Figure 1: Primawave's Effect on Injection per Point at Orlando, FL

Figure 3 and 4 present historical and newly generated data for the *ex-situ* Primawave remedial program for the decade's old pump-and-treat site. Figure 3 presents definitive data on the utility of conventional oilfield waterflooding as well as Primawave waterflooding for contaminant recovery. The standard pump-and-treat decline curve generated for the time period June 19, 2007 (one year's prior data is only plotted) to July 25, 2008 mimics that of an oilfield production decline. As time goes on, production decreases until such time as the producing zone is re-energized by the addition of a flooding fluid and further oil, or in this particular case, contaminant recovery is forced out of the porous medium. The affect of a conventional waterflood employed from July 25, 2008 to October 3, 2008 at the former refinery can be seen with a short-term uplift in contaminant recovery however a steep production decline soon prevails. The Primawave waterflood

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employed for the period October 6, 2008 to November 24, 2008 also shows a significant short-term increase in contaminant recovery, however, there is no steep decline associated with the approach. Compared to both the standard pump-and-treat method as well as a conventional waterflood, Primawave demonstrated the ability to provide steady contaminant recovery levels without significant decline. This result is very important to pump-and-treat operators given the number of years to site decommissioning can be greatly reduced with continual, not declining, contaminant recovery.

Figure 4 presents a comparison of short-term contaminant recovery versus the volume of water injected for the conventional and Primawave waterflood cases. As shown in this graph Primawave outperforms a conventional waterflood providing for a greater quantity of contaminant removed per gallon of water injected. This result also mimics what has been seen in the oil sector where Powerwave is employed in waterfloods. To this end both Primawave and Powerwave provide for greater efficiency of injection.

This short-term Primawave program at the pump-and-treat site was suspended for the winter given all flow lines are on surface and freezing was becoming a concern. It is expected that the program will be re-initiated as the weather improves. Additionally, the client is evaluating the use of a surfactant in conjunction with Primawave to further expedite site remediation.

The short-term results of the pump-and-treat program cannot be underscored. With 149 active oil refineries down from 301 in 1982 and the likelihood that some form of remediation on-going at all sites, a vast market opportunity exists for Primawave.

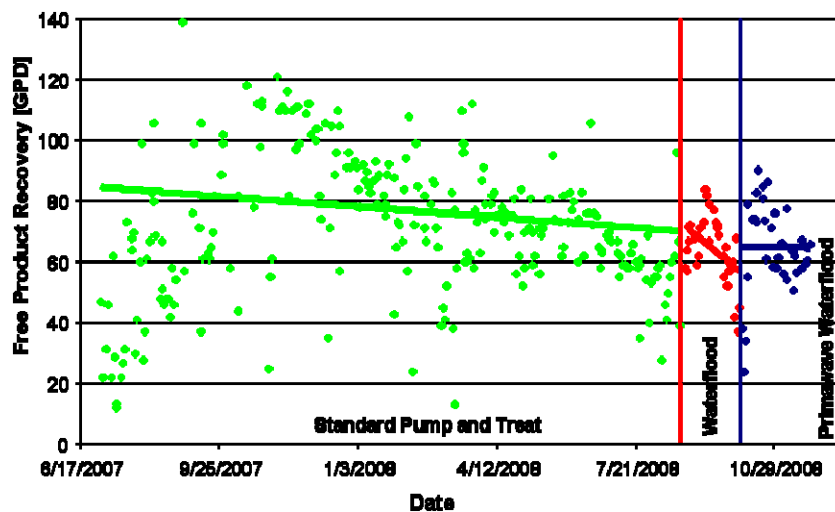
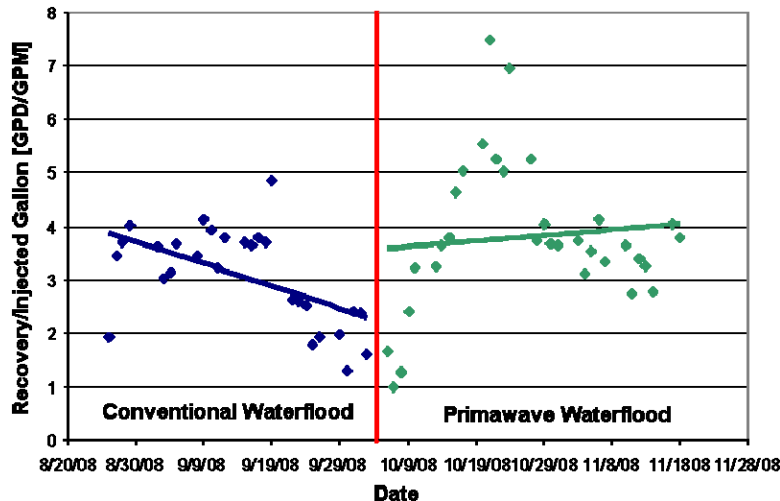


Figure 3: Historical Daily Contaminate Recovery

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**Figure 4: Comparison of Contaminate Recovery per Injected Gallon of Water**

The environmental sector remains a largely untapped opportunity for the Corporation to build a meaningful revenue stream. To accomplish this, the Corporation recently hired a Vice President Environment, working out of Raleigh, NC to solely concentrate on Primawave business development across the United States. The Corporation also commenced a program of certified Primawave users and distributors.

The size of the global environmental remediation market is substantial and on the rise. Having a technology such as Primawave that benefits both *in-situ* and *ex-situ* remedial approaches represents a unique opportunity for the Corporation in the marketplace as it is the only company offering an injection optimization technique of this magnitude. Table 1 provides a breakdown of the market potential by geographical region.

Country	US	Canada	Western Europe	Japan	Australia
<b>Market Indicators</b>					
<b>Number of contaminated sites</b>	450,00-500,000+		600,000+	500,000+	160,000
<b>Value of current market</b>	US \$10+ billion per year	\$250 - 500 million	€50 billion, timeframe unspecified	\$1.2 billion+, timeframe unspecified	Unknown
<b>Future potential</b>	US \$650 billion over 30-35 years	10 year, \$3.5 billion for federally owned contaminated sites; 10 year, \$500 million for specific	0.5-1.5% of GDP	estimated to grow to \$3 billion by 2010	Unknown



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Market Indicators	Country				
	US	Canada	Western Europe	Japan	Australia
		contaminated sites of concern; \$150 million redevelopment of municipal brownfields			
<b>Key areas</b>	Hydrocarbon industry, property transfer liabilities, urban brownfield redevelopment	Hydrocarbon industry, brownfield redevelopment – due to increasing urbanization	agricultural sector, industrial plants, land developers, municipalities	Industrial plants were toxic substances are/were used, buyers of potentially contaminated land	greatest opportunities in property transactions, mine site rehabilitation
Source: AHC Group 2007, compiled from Canadian Environmental Industries “Global Markets for the soil remediation sub-sector” <a href="http://strategis.ic.gc.ca/epic/internet/inea-ae.nsf/en/ea02207e.html">http://strategis.ic.gc.ca/epic/internet/inea-ae.nsf/en/ea02207e.html</a>					

**Table 1: Key Statistics on Global Remediation Market**

Historically, the energy sector adapts “new” technology in the range of ten to twelve years. The main driver of the industry’s slowness in its adaptation rate is the lack of verifiable data stemming from a lack of willingness to change production or drilling related activities. Much of this reluctance also held true for Powerwave where there was a perception of a lack of verifiable injection and production data over a wide and varied range of geological conditions. The slowness of technology adaptation is further compounded by the required confidentiality by oil producers, i.e., the energy industry operates in a “tight holes” environment, in that they do not disclose or share information pertaining to their oilfields to competitive producers or service providers. Powerwave has not been immune from this mentality. To overcome the aforementioned obstacles and to amass an embodiment of data, in a prior year, the Corporation acquired a working interest in the production, equipment and mineral leases of an oilfield situated in Rogers County, Oklahoma, and set out to showcase the benefits of Powerwave.

The Rogers County oilfield set-out to address the following:

- i) Since all prior work was undertaken in Canada in proximity of the Alberta/Saskatchewan heavy oil belt Management believed that having a showcase in the United States, the largest geographic area of secondary and enhanced oil recovery would assist the Corporation in accessing an untapped market.
- ii) Given the majority of prior Powerwave work was done in heavier oil, there existed a misconception that Powerwave was a heavy oil technology. Powerwave and its environmental counterpart Primawave, in fact excel, in reservoirs of higher fluid viscosity as the waveforms are easier to generate. Management therefore believed targeting an oilfield with lighter oil would assist in nullifying this misconception.



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- iii) The Corporation's working capital position, at the time of acquisition, was such that it could only target "stripper fields", i.e., by definition an oilfield where production is less than 10 barrels of oil per day ("bbl/d").

Of the 1,370 acres under lease in Rogers County, the Corporation developed approximately 205 acres (or 17.25% of total acreage). The development that occurred had to be to the standards of a more prolific oilfield as the Corporation's targeted customers are oil producers having a minimum production level of 1,000 barrels of oil per day (bbl/day).

Following the belief that verifiable data was needed from multiple data sets, from different geological locations and formations the Corporation in 2006 entered into a "Farm-in" Agreement with Greentree Gas and Oil Ltd. ("Greentree") to develop Greentree's Rodney South oilfield with Powerwave.

More specifically the major developments occurring in fiscal 2008 include the following:

- The resulting injectivity data from Rogers County has directly lead to and/or assisted the Corporation in securing Powerwave contracts in Alberta, Saskatchewan, Pennsylvania, Texas, and Alaska. As of December 29, 2008, the Corporation has secured 17 Powerwave projects, having installed 25 Powerwave systems, with 53 systems pending installation. The Corporation is waiting on final confirmation of an additional 6 Powerwave projects representing 13 systems. The installation of systems is dependent on the individual oilfield operators scheduling that often is associated with planned work on targeted injectors, and beyond Wavefront's control. Contracts and pending contracts that do not involve production overrides (13 Powerwave systems) total 78 Powerwave systems, and when installed, would represent \$213,500 in monthly gross revenues.

Ten of the current seventeen clients have identified that there exists a total of 4,096 injectors in the current field locations where Powerwave is, or is to be implemented. In addition to new projects and new installations these 4,096 injectors are being targeted by Wavefront for Powerwave installation in the future.

- The Corporation together with Greentree finalized the development of the South Rodney oilfield under a farm-in arrangement. During the fiscal year the Corporation began recognizing production revenue from the South Rodney oilfield.

### Revenues

Revenues for the first quarter ended November 30, 2008 were \$430,955. This is an increase of \$146,137 over the comparative period in 2007 that recognized revenues of \$284,818. The increase in revenues is primarily a result of the interest generated from the investment of cash from private placements, and related subsequent warrant exercises that closed on December 24, 2007 and January 31, 2008.

During the period ended November 30, 2008, the Corporation recognized production and operator revenues of \$39,232 (2007 - \$30,630) related to the Rogers County and Rodney South ventures. Of the production and operator revenue recognized, \$15,526 (2007 - \$788) relates to the Rodney South Venture, whereas \$23,797 (2007 - \$29,842) relates to Rogers County.

Production revenue, alone, from Rogers County decreased by \$8,001 to \$15,308 (2007 - \$23,309).



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During the period ended November 30, 2008 service revenue and royalties related to the tubing pumps, bailer and surge cup rentals market totalled \$144,708 compared to the \$200,296 for the comparative period. The decreases in revenues reflect the current industry activity.

Revenues related to Powerwave and Primawave remained relatively flat when compared to the comparative reporting period, as the Corporation provided new customers with discounts as inducements to enter into longer-term contracts. The discounts ranged from overall pricing discounts to free initial periods to the inclusion of installation, such inducements were based on the contract terms and potential number of Powerwave system that could be installed in a particular oilfield. Regardless of the inducement, the Corporation recognizes revenue and the associated installation expenses equally over the term of the contracts.

Geographically, \$340,909 (2007 – \$253,987) in revenue was generated in Canada, and \$90,046 (2007 - \$30,831) from the USA.

### Direct Expenses

Direct expenses related to service revenue and royalties decreased to \$92,710 (or 38.6% of gross services and royalty revenue) compared to \$143,273 (or 71.2% of gross service and royalty revenues) for comparative reporting period. The decrease in direct costs relates principally to the Corporation recognizing the installation costs of overriding royalty Powerwave projects, i.e., projects where the Corporation receives a percentage of net or gross production revenue in the comparative period. Since production can fluctuate, the gross margin on these projects can also fluctuate from positive to negative from period to period; however, the expected long-term rate of return has been negotiated to off-set such risk.

### Other Expenses

Other expense for the period amounted to \$3,171,123, compared to \$1,244,145 in 2007. The increase in operating expenses of \$1,926,978 was principally a result of the following changes:

- i) During the reporting period there was a precipitous drop in commodities prices, which in general has affected the valuation of resource properties across the energy sector. The drop in commodity prices was viewed by the Corporation as a triggering event, causing it to fair value the oilfield assets, i.e., Rogers County, and assets associated assets with oilfield, i.e., the Royalty Rights in South Rodney. As a result, the Corporation realized a non-cash write-down of its Rogers County oilfield property, plant and equipment and non-participation amounts due by \$1,133,936 and the Royalty Rights by \$555,212 (see Assets and Liabilities, and Transaction with Related Parties for further discussion).
- ii) General and administrative expenses, totalled \$916,482, an increase of \$260,697 over the comparative period in 2007. The following table provides comparative details for the general and administrative expenses.



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	November 30, 2008 \$	November 30, 2007 \$
Wages, employee benefits, and contract employees	519,366	380,752
Office	145,425	112,853
Professional fees	98,954	79,802
Vehicle	58,682	34,550
Consultants	48,406	3,831
Repairs and maintenance	39,764	43,743
Bad debts	5,326	Nil
Miscellaneous	559	254
	<b>916,482</b>	<b>655,785</b>

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

- An increase in “wages, employee benefits, and contract employees” expense of \$138,614 that can be attributed to an increase in wage rates and numbers of staff. As at November 30, 2008, the Corporation employed 28 full-time employees and 1 casual / part-time employee’s (November 30, 2007 - 24 full-time employees and 1 casual / co-op student employees). The increase in employees was focused in the areas of increased sales personnel and personnel required for Powerwave and Primawave installations as well as client and licensee training. Although the Corporation’s business model is not to be a services company, as the Powerwave and Primawave systems are designed for end-customer “plug and play”, it is believed that to ensure the proper initial installations and operations of Powerwave and Primawave systems that the Corporation undertake installations in the short-term.
  - An increase in “consultant” expenses of \$44,575 relates to the hiring of sales consultants and engineering consultants that were assisting in the development of additional Powerwave tools designs.
  - An increase in “office” expenses of \$32,572 relates to the establishment of a new sales office in Calgary, Alberta, increase insurance rates, and the establishment of test facility for Powerwave and Primawave systems in Edmonton, Alberta. The later of which required the Corporation to increase the amount of warehouse space being leased.
  - An increase in “vehicle” expenses of \$24,132 that can be attributed to the increase in vehicle use by the increase in sales personnel, and the use of rental vehicles versus leasing vehicles. Use of rental vehicles has increased with the increase in the number of Powerwave systems that the Corporation undertook.
- iii) An increase in “selling, marketing, and travel” expense of \$116,069 which relates to increased activity and resulting increase in the size of the Corporation’s sales force and operating at multiple office locations across Canada and the United States. The Corporation will continue to expand its sales network focusing on the United States southeast and west coast locations.



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- iv) Offsetting the above noted increase was a decrease in "research and development" expenses of \$102,414, which can be attributed to the comparative period's reclassification of \$122,074 of costs that were previously included in assets under construction. The development of Powerwave and Primawave tools is essential to the long-term strategic position of the Wavefront, as new tool designs open new applications and markets, i.e., diameter of injectors and injectors that are operating without power, or tool durability for the Corporation's technology. When efforts to design tools are experimental or do not result in commercial designs, the Corporation costs these expenses to research and design. The Corporation will continue to undertake to develop new tools in the future, some of which may not result in commercial designs, and thus the costs will be moved to research and development expenses.
- v) Additional other operating expenses resulted in expense decreases amounting to \$60,995, and relate to the following:
- An increase in "amortization, depreciation, depletion and accretion" expenses of \$10,819. The increase principally relates to the Corporation's depreciation and depletion of the Rogers County oilfield related assets, which was not amortized in the prior year.
  - A decrease of "listing and public company fees" of \$30,064 which relates to the associated expenses related to level of general public market activity as result of the volatility of the financial markets. It is expected that the expenditure levels will increase in forthcoming quarter to improve secondary market awareness of the Corporation.

### Net Loss and Loss Per Share

The basic and diluted net loss, before the write-down of property, plant and equipment and intangible assets for the period ended November 30, 2008 was \$1,005,707 (\$0.014 per share), compared to \$1,018,371 (\$0.02 per share) for the comparative period of November 30, 2007. The extraordinary non-cash write-down of property, plant and equipment and intangible assets for the period ended November 30, 2008 totalled \$1,689,148 (representing a basic and diluted loss per share of \$0.024 per share).

The basic and diluted net loss for the period ended November 30, 2008 was \$2,694,935 (\$0.04 per share), compared to \$1,018,271 (\$0.02 per share) in 2007. The increase in net loss is attributed to:

- A focus on the commercialization of the Corporations' core Powerwave and Primawave technologies, through increased sales force, and personnel capable of ensuring the proper installation and operation of the Powerwave and Primawave technologies. This had an affect of increasing current expenses in anticipation of obtaining larger market penetration;
- The non-cash write-down of \$1,689,148 on property, plant and equipment associated with the Rogers County operations and the South Rodney Royalty Rights.



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### LIQUIDITY AND CAPITAL RESOURCES

#### Assets and Liabilities

Total assets decreased by \$1,932,403 to \$29,996,324. The decrease was primarily due to a decrease of \$1,081,138 in cash that was used to fund working capital and for the purchase of property, plant and equipment. Assets were also affected by the decision by the Corporation to write-down its oilfield related property, plant and equipment and Royalty Rights.

During the reporting period ended November 30, 2008, prepaid and deferred expenses increased by \$231,394 to \$267,697. The increase is a direct result of the Corporation recognizing revenue and the associated installation expenses equally over the term of the contracts. This decision has the affect of deferring the installation costs, which are classed to prepaid and deferred expenses till they are expensed to direct costs.

As at November 30, 2008 the Corporation held a 40% working interest in an aggregate of 780 acres, consisting of four separate oilfield leases, and a 90% working interest in an aggregate of 580 acres, consisting of four separate oilfield leases in Rogers County, Oklahoma. These leases are classified as unproven, however, in accordance with the Canadian Institute of Chartered Accountants full cost accounting guidelines, the Corporation estimated future production and based on this internal estimate, realized a write-down of its Rogers County oil and gas property, plant and equipment and non-participation amounts due by \$1,133,936 (see Transaction with Related Parties for further discussion). This write-down was determined based on estimated present value of future cash flows calculated using: an economic life of 31 years, cumulative production of 41,881 barrels of oil, the closing NYMEX futures prices as quoted on November 28, 2008, and a 4.00% discount rate.

Consistent with using the drop in commodity prices as the triggering event for the write-down of Rogers County, the Corporation realized a write-down of its Royalty Right associated with the South Rodney Farm-in Agreement of \$555,212. The write-down of this definite-life intangible asset was based on the independent reserve report, as provided by Greentree as the operator of record, the closing NYMEX futures prices as quoted on November 28, 2008, and a 4.00% discount rate.

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

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

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

The acquisitions of oilfield leases are to allow the collection of data, over a range of different geological conditions that can be audited by potential third party Powerwave customers.



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Total liabilities increased by \$362,938 from the previous year-end to \$1,841,562. This was principally due to the increase in accounts payable and accrued liabilities (totalling \$395,160).

### **Liquidity**

As at November 30, 2008, the Corporation had working capital of \$20,638,705. The Corporation believes that its working capital position will decline despite having a significant increase in the number of Powerwave contracts in-hand, as Wavefront cannot control or dictate the installation schedules. It is believed however, that as each client experiences positive Powerwave results that further uptake of the technology will require the Corporation to increase its Powerwave inventories.

### **Financings**

During the period ended November 30, 2008, the Corporation did not undertake any financings. However, 485,000 incentive stock options were exercised during the period ended November 30, 2008, at prices ranging from \$0.50 to \$0.55 resulting in gross proceeds of \$245,000. Of the incentive stock options that were exercised 375,000 were exercised by directors of the Corporation for gross proceeds of \$190,000. In the comparative reporting period no securities were issued or financings undertaken.

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

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

### **Capital Resources**

Currently, the Corporation has the following commitments for capital expenditures:

#### **Greentree Farm-in**

In a prior year, the Corporation entered into a "Farm-in" Agreement with Greentree to develop Greentree's Rodney South oilfield lease. Under the Farm-in Agreement the Corporation supplied its Powerwave technology and funded 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 acts as the Operator of the lease and contributed the petroleum leases, existing seismic and geological data, and the use of its existing field facilities. Greentree also provides its field maintenance staff, administrative, and office support staff. In consideration for each party's contributions, cash flows from operating activities were 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.

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, which has been recorded as an intangible asset on the consolidated balance sheet. The Corporation is obligated to the remaining balance of



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up to \$72,389 (August 31, 2008 – \$81,166) under the Farm-in Agreement. The resulting asset is classified as finite life intangible asset.

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

### Supplier Purchase Obligations

The Corporation is committed to acquiring inventory items totaling \$571,500 from a third party supplier to manufacture the Powerwave systems for pending contracts.

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

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

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

As of January 27, 2009, there are no amounts owed in respect of the lines of credit and the Corporation had \$21,133,712 of cash on hand. Of the cash on hand, the Corporation has \$19,500,000 in Guaranteed Investment Certificates on deposit with a Canadian Chartered Bank.

### CONTRACTUAL COMMITMENTS

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

As at November 30, 2008	Payments Due by Period				
	Total	Less than 1 Year	1 – 3 Years	3 – 5 Years	More than 5 Years
Shareholder loans	\$ 178,038	\$ 140,917	\$ 37,121	\$ -	\$ -
Capital lease obligations	21,182	21,182	-	-	-
Operating lease obligations	94,442	94,442	-	-	-
Supplier purchase obligations	571,500	571,500	-	-	-
	\$ 865,162	\$ 828,041	\$ 37,121	\$ -	\$ -



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Management is of the opinion that its working capital position of \$20,638,705 as at November 30, 2008 is sufficient to cover its current commitments and operations for the forthcoming fiscal year.

The majority of expenditures related to Rogers County oilfield and Greentree Farm-in have been incurred. Management does not expect sizable financial commitments related to these projects in fiscal 2009. All future expenditures and investments in capital assets and projects will be governed by the Corporations working capital position throughout the year.

### OFF-BALANCE SHEET ARRANGEMENTS

The Corporation has no off balance sheet arrangements.

### TRANSACTIONS WITH RELATED PARTIES

- i) During the period ended November 30, 2008, directors of the Corporation exercised 375,000 incentive stock options at prices ranging from \$0.50 to \$0.55 for aggregate consideration \$190,000.
- ii) In a prior year, the Corporation entered into the Option Agreement to acquire ninety percent (90%) of the working interest in the production, equipment and mineral leases of known as the Chelsea-Alluwe Waterflood Leases in Rogers County, Oklahoma ("Leases"). Boulder Oil, LLC, a related limited liability company executed the Option Agreement on behalf of the Corporation by paying US\$165,000 of the purchase price in exchange for a sixty percent (60%) working interest in the Leases. Each working interest party is responsible for operating and field development costs in proportions relative to their working interest percentage.

During the fiscal year ending August 31, 2006, the Corporation became the Operator of Record. As the Operator, the Corporation is initially responsible for all operating expenses and development costs, which are then charged back to each non-operating partner relative to their working interest percentage. Boulder however, as a non-operating partner, exercised its non-participation right under the Joint Operating Agreement. Under the Joint Operating Agreement, the Corporation will receive all production revenues from production wells until such time that the Corporation is repaid 200% of the costs incurred, after which, production revenues will revert back to the working interest proportions. As at 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).

During the reporting period there was a material decline in commodity prices, which as the triggering event 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: an economic life of 31 years, cumulative production of 41,881 barrels of oil, the



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NYMEX futures prices as quoted on November 28, 2008, and a 4.00% discount rate.. The calculated amounts to be written-down, and the resulting carrying value of the Rogers County non-participation amounts due, may not be indicative of the actual values. Additionally, given the volatility in the financial and commodity markets, the Rogers County non-participation amounts due may be materially affected in the near term by further write-downs.

### **PROPOSED TRANSACTIONS**

The Corporation is currently performing due diligence and is negotiating a potential acquisition of a complementary company to that of Wavefront Sand Pumps & Rentals Ltd. As at the date of this report the closing of the transaction and the terms can not be assured.

### **OUTLOOK**

It is believed that the global recession coupled with the Canadian federal government's elimination of income trusts and the Alberta provincial government's initiative to increase the royalty tax rate on producing oil and gas wells in the province has and will continue to negatively impact the economic activity in the western Canadian energy industry.

The lower commodity prices may also force producers to look at alternatives to replacing produced reserves, which may be favorable to the adaptation rate of the Corporation's Powerwave technology. An alternative to using technology to replace produced reserves however, would be for cash rich producers' acquisition of under-valued production companies.

The constrained capital markets may also present a challenge for companies with large funding requirements and/or short-term borrowing capacity. With limited ability to finance growth, there may be a period of consolidation for smaller and mid-tier production companies. As such the Corporation will have to continue to focus implementing Powerwave with producers whose production exceed 1,000 bbl/day and monitor client credit.

Despite the global recession, the Corporation has yet to see any material cancellations or changes to its current back log of contracts and continues to see interest from a varied range of operators. However, in marketing to some prospective clients in the United States the issue of economic uncertainty, tightening credit, budgetary freezes, and down-sizing of staff has resulted in certain decisions to implement Powerwave to be deferred until such time price stability returns to the oil futures market. This said, producers large and small will continue to be required to generate revenue to meet financial obligations. If production levels fall off while oil prices remain low there may become a greater dependency on low-cost production enhancement techniques such as Powerwave to boost production volumes hence overall gross revenue.

The Corporation is not immune to the global economic conditions that continue to deteriorate, inclusive of increases in United States and Canadian unemployment rate, or the volatility in the commodity markets and foreign exchange rates.

As a result of the above, the Corporation will focus its efforts in fiscal 2009 on the following:

- i) Installing existing and pending the back order of Powerwave projects;



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- ii) Expand the use of Powerwave to current clients across the estimated 4,096 injectors in those oilfields currently utilizing Powerwave;
- iii) Expand market penetration of Powerwave through a network of third-party distributorships throughout the globe;
- iv) Expand the worldwide certified Primawave service provider program and the client base;
- v) Develop new users in the pump market beyond the western Canadian market.

Successfully achieving the above efforts will move the Corporation towards positive income and cash flow position. The timing of positive income and cash flow will be dependent upon the installation rate of existing and future Powerwave contracts, which is beyond the Corporation's control or influence. Typically the installation of a Powerwave system is initiated when other work is performed on a particular target water or CO2 injector.

### SUPPLEMENTARY INFORMATION

#### Summary of Quarterly Results (Three months ended)

	1st Qtr Nov 30'08	4th Qtr Aug 31 '08	3rd Qtr May 31 '08	2nd Qtr Feb 28 '08
Revenue	\$ 430,955	\$ 441,449	\$ 684,009	\$ 342,286
Net Loss	\$ (2,694,935)	\$ (3,603,596)	\$ (1,195,773)	\$ (1,127,539)
Basic and diluted loss per share	\$ (0.038)	\$ (0.052)	\$ (0.016)	\$ (0.021)
Common shares outstanding				
Weighted average shares outstanding	71,386,072	62,035,011	60,004,288	51,920,405
Diluted shares outstanding	71,753,117	62,666,627	60,712,744	52,772,987

	1st Qtr Nov 30'07	4th Qtr Aug 31 '07	3rd Qtr May 31 '07	2nd Qtr Feb 28 '07
Revenue	\$ 284,818	\$ 467,863	\$ 711,538	\$ 169,020
Net Loss	\$ (1,018,271)	\$ (1,234,352)	\$ (1,042,086)	\$ (1,025,658)
Basic and diluted loss per share	\$ (0.021)	\$ (0.028)	\$ (0.020)	\$ (0.020)
Common shares outstanding				
Weighted average shares outstanding	48,572,112	47,937,111	47,927,816	47,918,911
Diluted shares outstanding	49,374,675	48,713,889	48,707,271	48,529,192

- (1) This Financial data has been prepared in accordance with Canadian GAAP
- (2) All amounts in Canadian dollars except share data
- (3) Prior period loss from operations have reclassified to conform to current presentation.



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### **RISK FACTORS**

The Corporation's business risks are the same as disclosed in its annual MD&A issued for the year ended August 31, 2008.

### **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

The Corporation's critical accounting policies and estimates are the same as disclosed in its audited financial statements, and accompanying MD&A for the year ended August 31, 2008.

### **CHANGES IN ACCOUNTING POLICIES**

The changes in accounting policies and future accounting changes not yet applied are disclosed in the notes to the audited consolidated financial statement for the year ending August 31, 2008.

### **International Financial Reporting Standards**

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

IFRS will not only impact the presentation and disclosure of item in the financial statements of the Corporation but also the calculation of future profits and the measurement of balance sheet items. In addition, there are a number of wider business issues which will need consideration and careful planning including managing shareholders' expectations, employee training, information systems and internal controls.

Given the level of information gathering required as part of the process, during the fiscal year the Corporation worked with Deloitte & Touche LLP and has substantially completed the awareness stage of the project scoping and planning of an overall IFRS implementation plan. It is expected that the Corporation will continue to work with Deloitte & Touche to complete the project scoping and planning phase, and commence a comprehensive IFRS conversion phase.

### **FINANCIAL AND OTHER INSTRUMENTS**

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



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

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

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

### **Credit Risk**

Credit risk arises from the potential that counterparty will fail to perform its obligations. The Corporation's financial instruments that are exposed to concentrations of credit risk consist primarily of accounts receivable. Concentrations of credit risk with respect to accounts receivable are limited as the majority of transactions are with large publicly traded corporations or government organizations dispersed across geographic areas. Credit risk, with respect to accounts receivables in Canada and the United States, is also limited due to the Corporation's credit evaluation and cash management processes. 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 South Rodney Royalty Rights and Rogers County non-participation ventures noted above.

### **Foreign currency risk**

The Corporation is exposed to currency risks as a result of its export to foreign jurisdictions of goods produced in Canada or services provided from Canada, the operational expenses and production revenue of the Rogers County venture, and Powerwave and Primawave business development expenses in the United States. These risks are partially covered by purchases of goods and services in the foreign currency. The Corporation does not use derivative instruments to reduce its exposure to foreign currency risk.

### **Interest rate risk**

The Corporation is exposed to interest rate risk as a result of interest receivable is affected by changes in interest rates. The Corporation does not use any derivative financial instruments to reduce its exposure to interest rate risk.

### **Commodity price risk**

The Corporation is exposed, somewhat, to commodity price risk as a result of 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. The Corporation does not use any derivative financial instruments to reduce its exposure to commodity price rate risk.



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

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### CONTROLS AND PROCEDURES

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

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

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

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

### FORWARD-LOOKING INFORMATION

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

### ADDITIONAL INFORMATION

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