

*Unaudited Consolidated Financial Statements of*

**WAVEFRONT TECHNOLOGY SOLUTIONS INC.**

*For the Second Quarter ended February 28, 2009*

## **TABLE OF CONTENTS**

	<b><u>PAGE</u></b>
Consolidated Balance Sheets	1
Consolidated Statements of Loss, Comprehensive Loss and Deficit	2
Consolidated Statements of Cash Flows	3
Notes to the Consolidated Financial Statements	4 - 18

# WAVEFRONT TECHNOLOGY SOLUTIONS INC.

## Consolidated Balance Sheets

	As at February 28, 2009 \$ (Unaudited)	As at August 31, 2008 \$ (Audited – note 2)
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	18,614,726	22,435,719
Accounts receivable	350,982	758,180
Prepaid expenses	240,469	36,303
Inventory	65,885	86,339
	<hr/>	<hr/>
	19,272,062	23,316,541
<b>Deposits</b>	120,220	62,136
<b>Property, plant and equipment</b> (notes 6, 7 and 16)	5,142,936	4,991,092
<b>Intangible assets</b> (note 8)	2,004,773	2,570,096
<b>Goodwill</b> (note 5)	1,399,715	988,862
	<hr/>	<hr/>
	27,939,706	31,928,727
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	827,331	1,068,559
Current portion of amounts due to shareholders	145,912	137,985
Current portion of obligations under capital leases	-	24,049
	<hr/>	<hr/>
	973,243	1,230,593
<b>Due to shareholders</b>	-	73,469
<b>Asset retirement obligation</b> (note 9)	175,297	174,562
	<hr/>	<hr/>
	1,148,540	1,478,624
<b>Shareholders' Equity</b>		
<b>Share capital</b> (note 11)	49,613,430	49,319,704
<b>Contributed surplus</b>	2,929,930	2,642,913
<b>Deficit</b>	(25,752,194)	(21,512,514)
	<hr/>	<hr/>
	26,791,166	30,450,103
	<hr/>	<hr/>
	27,939,706	31,928,727
	<hr/>	<hr/>

**WAVEFRONT TECHNOLOGY SOLUTIONS INC.**

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

	Six Month Period Ended		Three Month Period Ended	
	February 28, 2009	February 29, 2008	February 28, 2009	February 29, 2008
	\$	\$	\$	\$
<b>Revenue</b>				
Service revenue and royalties	424,889	396,705	184,787	195,420
Production revenue and operator fees, net of taxes and royalties	43,170	84,469	3,847	53,839
Interest and other	230,700	145,930	79,170	93,027
	<u>698,759</u>	<u>627,104</u>	<u>267,804</u>	<u>342,286</u>
<b>Expenses</b>				
Direct costs	224,928	205,593	132,218	62,320
General and administrative expenses	1,970,968	1,495,341	1,054,487	839,556
Write-down of oilfield property, plant and equipment, and non-participation amounts	1,133,936	-	-	-
Write-down of intangible assets	555,212	-	-	-
Selling, marketing and travel	466,520	387,420	166,731	203,700
Stock-based compensation (note 11)	335,743	124,434	181,149	27,196
Amortization, depreciation, depletion and accretion expenses	263,259	279,219	142,229	169,008
Research and development	157,726	159,191	115,761	14,812
Listing and public company fees	100,480	132,806	79,083	81,345
Interest expense	9,725	24,077	5,066	22,826
Loss (gain) on disposal of property, plant and equipment	6,337	(16,325)	6,742	(16,325)
Foreign exchange (gain) loss	(286,395)	(18,842)	(70,917)	65,387
	<u>4,938,439</u>	<u>2,772,914</u>	<u>1,812,549</u>	<u>1,469,825</u>
<b>Net loss and comprehensive loss for the period</b>	<b>(4,239,680)</b>	<b>(2,145,810)</b>	<b>(1,544,745)</b>	<b>(1,127,539)</b>
<b>Deficit – Beginning of period</b>	<b>(21,512,514)</b>	<b>(14,567,335)</b>	<b>(24,207,449)</b>	<b>(15,585,606)</b>
<b>Deficit – End of period</b>	<b>(25,752,194)</b>	<b>(16,713,145)</b>	<b>(25,752,194)</b>	<b>(16,713,145)</b>
<b>Loss per common share (note 14)</b>				
Basic and diluted	<u>(0.06)</u>	<u>(0.04)</u>	<u>(0.02)</u>	<u>(0.02)</u>

# WAVEFRONT TECHNOLOGY SOLUTIONS INC.

Consolidated Statements of Cash Flow (Unaudited)

	Six Month Period Ended		Three Month Period Ended	
	February 28, 2009 \$	February 29, 2008 \$	February 28, 2009 \$	February 29, 2008 \$
<b>Cash provided from (used in)</b>				
<b>Operating activities</b>				
Net loss for the period	(4,239,680)	(2,145,810)	(1,544,745)	(1,127,539)
Items not affecting cash				
Write-down of oilfield property, plant and equipment, and non participation amounts	1,133,936	-	-	-
Write-down of intangible assets	555,212	-	-	-
Stock-based compensation (note 11)	335,743	124,434	181,149	27,196
Amortization, depreciation, depletion and accretion expenses	263,259	279,219	142,229	169,008
Loss (gain) on disposal of property, plant and equipment	6,337	(16,325)	6,742	(16,325)
	<u>(1,945,193)</u>	<u>(1,758,482)</u>	<u>(1,214,625)</u>	<u>(947,660)</u>
Net change in non-cash working capital items	<u>(35,686)</u>	<u>265,415</u>	<u>(393,435)</u>	<u>107,057</u>
	<u>(1,980,879)</u>	<u>(1,493,067)</u>	<u>(1,607,060)</u>	<u>(840,603)</u>
<b>Financing activities</b>				
Repayment of long-term debt	(111,807)	-	(111,807)	-
Proceeds from Private Placements – net of share issuance costs	-	12,805,050	-	12,805,050
Proceeds from exercise of incentive stock options	245,000	22,910	-	22,910
Repayment of amounts due to shareholder	(67,542)	(66,137)	(34,126)	(28,228)
Repayment of obligations under capital leases	(2,867)	(18,425)	-	(9,247)
	<u>62,784</u>	<u>12,743,398</u>	<u>(145,933)</u>	<u>12,790,485</u>
<b>Investing activities</b>				
Purchase of property, plant and equipment (note 7)	(1,311,448)	(433,726)	(413,056)	(156,824)
Business acquisition (note 5)	(550,676)	-	(550,676)	-
Intangible costs (note 8)	(41,349)	(286,941)	(23,130)	(63,592)
Proceeds on disposal of property, plant and equipment	575	90,784	-	90,784
	<u>(1,902,898)</u>	<u>(629,883)</u>	<u>(986,862)</u>	<u>(129,632)</u>
<b>(Decrease) increase in cash and cash equivalents</b>	<b>(3,820,993)</b>	<b>10,620,448</b>	<b>(2,739,855)</b>	<b>11,820,250</b>
<b>Cash and cash equivalents – Beginning of period</b>	<b>22,435,719</b>	<b>5,430,949</b>	<b>21,354,581</b>	<b>4,231,147</b>
<b>Cash and cash equivalents – End of period</b>	<b>18,614,726</b>	<b>16,051,397</b>	<b>18,614,726</b>	<b>16,051,397</b>
<b>Supplementary information</b>				
Interest paid	9,585	14,197	4,892	13,143

# WAVEFRONT TECHNOLOGY SOLUTIONS INC.

Notes to Consolidated Financial Statements (Unaudited)

---

## 1. DESCRIPTION OF BUSINESS

Wavefront Technology Solutions Inc. (formerly Wavefront Energy and Environmental Services Inc.) (the "Corporation") is incorporated under the Canada Business Corporations Act. The Corporation's principal business activities involve the licensing and utilization of the Corporation's patented process for the enhancement and improvement of oil recovery and oil well stimulation (Powerwave™), and the optimization of groundwater remediation (Primawave™) approaches. In the oil sector the Corporation's strategy is to leverage its intellectual property through licenses of the technology to service providers, provide site licenses to oil producers and to obtain over-riding royalty payments in-kind for site licenses. In the environmental sector the Corporation's strategy is to provide site licenses to service providers, consultants, and stakeholders involved in site specific groundwater clean-up.

## 2. BASIS OF PRESENTATION

These interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") for interim financial statements using the same accounting policies as set out in the financial statements of the Corporation for the year ended August 31, 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 Corporation'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.

# WAVEFRONT TECHNOLOGY SOLUTIONS INC.

Notes to Consolidated Financial Statements (Unaudited)

---

## **Financial Instruments – Disclosure and Presentation**

Section 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 their financial statements that enable users to evaluate the significance of financial instruments on the entity’s financial position and its performance and the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and how the entity manages those risks. Section 3863 establishes standards for presentation of financial instruments and nonfinancial derivatives. It 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 statements.

## **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.

## **5. BUSINESS ACQUISITION**

Effective January 31, 2009, the Corporation acquired (the “Acquisition”) all of the issued and outstanding shares of Predator Pumps Ltd. (“Predator”), a privately-held Alberta company that provides specialized pumping equipment and services for use in heavy oil wells. Consideration for the Acquisition was \$550,676 (the “Purchase Price”) payable in cash. The Acquisition agreement includes a provision for contingent consideration of up to \$150,000 based on maintenance of certain sales performance conditions one year from the closing date. Any contingent consideration will be paid in cash, and is recorded as an incremental cost of the Purchase Price and added to goodwill.

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

# WAVEFRONT TECHNOLOGY SOLUTIONS INC.

Notes to Consolidated Financial Statements (Unaudited)

	\$
Current assets	55,676
Non-current assets	<u>213,490</u>
Total assets acquired	<u>269,166</u>
Current liabilities	84,437
Long-term debt	<u>44,906</u>
Total liabilities assumed	<u>129,343</u>
Net assets acquired	139,823
Goodwill	<u>410,853</u>
Purchase price	<u>550,676</u>

The above purchase price allocation is based upon a preliminary evaluation of the fair value of the assets and liabilities acquired and are subject to maintaining certain sale performance conditions and adjustment pending a final purchase price allocation.

## 6. PROPERTY, PLANT and EQUIPMENT

	<u>February 29, 2009</u>		<u>As at</u>	<u>As at August 31,</u>
	<u>Cost</u>	<u>Accumulated</u>	<u>Net Book</u>	<u>Net Book</u>
		<u>Depreciation</u>	<u>Value</u>	<u>Value</u>
Oilfield property, plant and equipment	\$ 627,888	\$ 60,183	\$ 567,705	\$ 1,120,666
Non-participation amounts	787,267	6,831	780,436	1,085,773
Equipment	4,092,662	580,554	3,512,108	2,597,603
Computer equipment	234,813	154,618	80,195	87,703
Computer software	297,968	261,987	35,981	43,905
Automotive equipment	122,150	17,409	104,741	30,558
Office furniture	113,842	52,072	61,770	24,884
	<u>\$ 6,276,590</u>	<u>\$ 1,133,654</u>	<u>\$ 5,142,936</u>	<u>\$ 4,991,092</u>

Property, plant and equipment includes oilfield property, plant and equipment of \$219,636 related to unproved properties in Young and Taylor County (Note 7) that are not subject to depreciation, and depletion, and equipment under construction of \$2,104,016 (August 31, 2008 - \$1,334,942), which is not being depreciated.

Depreciation expense for the six month period ended February 28, 2009 was \$211,064 (February 29, 2008 -\$243,624), (February 29, 2008 included depreciation relating to equipment under capital leases of \$12,207). Depletion expense for Rogers County oilfield property plant and equipment and non-participation amounts (Note 7) totaled \$67,014 (February 29, 2008 - \$nil).

# WAVEFRONT TECHNOLOGY SOLUTIONS INC.

Notes to Consolidated Financial Statements (Unaudited)

---

## 7. OILFIELD PROPERTY, PLANT and EQUIPMENT

### Rogers County

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 February 28, 2009 totaled \$60,183 (August 31, 2008 - \$nil) on the Rogers County oilfield property, plant and equipment. Although the Corporation has, at present, ceased further development of the Rogers County oilfield, maintenance of the wells and production will continue.

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 16 "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. As at February 28, 2009, the recorded amounts related to Boulder's exercise of non-participation rights totaled \$780,436 (August 31, 2008 - \$1,085,773). Under the Joint Operating Agreement, the Corporation will receive all production revenues from production wells associated with the costs incurred until such time that the Corporation is repaid 200% of the costs incurred, after which, production revenues will revert back to the working interest proportions. There are no other contractual obligations for Boulder to repay the Corporation other than the assignment of production revenues.

During the six month period ended February 28, 2009, the Corporation has recognized production revenue of \$25,530 (February 29, 2008 - \$43,812) related to the Rogers County venture.

During the first quarter ended November 30, 2008, there was a material decline in commodity prices. The Corporation recorded a write-down of its Rogers County oilfield property, plant and equipment and non-participation amounts by \$1,133,936 (August 31, 2008 - \$2,095,242). No write-down was provided for in the second quarter ended February 28, 2009.

### 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 six month period ended February 28, 2009 (February 29, 2008 - \$nil).

### Taylor County

During the year ended August 31, 2008, the Corporation acquired fifty (50%) percent working interest in certain mineral leases in Taylor County, Texas for total consideration of \$39,768. No costs were incurred on these leases for the six month period ended February 28, 2009 (February 29, 2008 - \$nil).

## WAVEFRONT TECHNOLOGY SOLUTIONS INC.

Notes to Consolidated Financial Statements (Unaudited)

### 8. INTANGIBLE ASSETS

	Six Months Ended February 28, 2009			Year Ended August 31, 2008
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Royalty rights	\$ 1,719,872	\$ 93,970	\$ 1,625,902	\$ 2,207,583
Fully-paid up license	102,640	18,284	84,356	91,435
Patents	385,132	91,355	293,777	270,305
Incorporation costs	3,451	2,713	738	773
	\$ 2,211,095	\$ 206,322	\$ 2,004,773	\$ 2,570,096

Amortization expense for the period ended February 28, 2009 totaled \$51,460 (February 29, 2008 - \$19,646).

#### Greentree Gas and Oil Ltd. royalty rights

As at February 28, 2009, the Corporation has paid Greentree \$2,177,611 (August 31, 2008 - \$2,168,834) under the Farm-in Agreement. The Corporation is obligated to provide additional funding of up to \$72,389. The related asset is classified as finite life intangible asset.

Amortization expense for the six month period ended February 28, 2009 totaled \$35,246 (February 29, 2008 - \$3,239) on the gross over-riding royalty rights.

During the first quarter ended November 30, 2008, there was a material decline in commodity prices. The Corporation recorded a write-down of its Farm-in Royalty Rights by \$555,212 (August 31, 2008 - \$nil). No write-down was provided for in the second quarter ended February 28, 2009.

### 9. 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:

# WAVEFRONT TECHNOLOGY SOLUTIONS INC.

Notes to Consolidated Financial Statements (Unaudited)

	Six Months Ended February 28, 2009	Year Ended August 30, 2008
	\$	\$
Asset retirement obligations – Beginning of period	174,562	74,890
Liabilities incurred	-	64,494
Accretion expense	735	35,178
Asset retirement obligations – End of period	175,297	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.

## 10. COMMITMENTS

### a) Operating leases

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

Fiscal Year	\$
2009	94,443
2010	94,932
2011	73,057
	<u>262,432</u>

### b) Greentree Gas & Oil Farm-in Agreement

The Corporation obligation related to the Greentree Farm-in Agreement (Note 8) is the remaining balance of up to \$72,389.

### c) The Corporation is committed to the purchase of inventory in the amount of \$65,885 as at February 28, 2009 from a third party supplier.

# WAVEFRONT TECHNOLOGY SOLUTIONS INC.

Notes to Consolidated Financial Statements (Unaudited)

## 11. SHARE CAPITAL

The Corporation's authorized and issued share capital as at February 28, 2009 is as follows:

### Authorized

Unlimited common shares without par value

### Issued common shares

	<b>Six Months Ended February 28, 2009</b>	
	<b>Number #</b>	<b>Stated capital \$</b>
Balance – Beginning of period	71,064,808	49,319,704
Stock options exercised	485,000	293,726
Balance – End of period	71,549,808	49,613,430

The 485,000 stock options exercised during the period ended February 28, 2009, 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.

### Stock-based compensation plan

A summary of the status of the Corporation's stock option plan as at February 28, 2009 is presented below:

	<b>Six Months Ended February 28, 2009</b>	
<b>Stock options</b>	<b>Number #</b>	<b>Weighted average exercise price \$</b>
Outstanding – Beginning of period	3,015,170	1.30
Granted	750,000	0.55
Exercised	(485,000)	0.51
Cancelled	(85,000)	1.03
Outstanding – End of period	3,195,170	1.25

Subsequent to the reporting period 210,000 incentive stock options were exercised at a weight average exercise price of \$0.44. Additionally 5,000 incentive stock options were cancelled with a weight average exercise price of \$2.90.

# WAVEFRONT TECHNOLOGY SOLUTIONS INC.

Notes to Consolidated Financial Statements (Unaudited)

Exercise price \$	Options outstanding		Options exercisable	
	Number outstanding #	Weighted average remaining contractual life in years	Number outstanding #	Weighted average remaining contractual life in years
2.95	725,000	1.9	725,000	1.9
2.90	145,000	4.3	48,332	4.3
2.57	200,000	2.2	200,000	2.2
2.05	200,000	4.0	100,000	4.0
1.76	100,000	2.4	100,000	2.4
1.65	210,000	4.0	140,000	4.0
1.40	50,000	4.0	33,333	4.0
0.97	100,170	3.0	100,170	3.0
0.60	150,000	4.9	-	-
0.54	600,000	4.9	-	-
0.45	265,000	0.6	265,000	0.6
0.44	210,000	0.2	210,000	0.2
0.40	240,000	1.5	240,000	1.5
	3,195,170	2.8	2,161,835	1.9

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 wages and to consultant expense with a corresponding increase in contributed surplus.

During the six month period ended February 28, 2009, 750,000 incentive stock options were issued at prices ranging from \$0.54 to \$0.60. Of the 750,000 incentive stock options issued, 500,000 were to directors of the Corporation. During the period ended February 29, 2008 no incentive stock options were granted.

During the six month period ended February 28, 2009, the Corporation incurred \$335,743 (February 29, 2008 - \$124,434) 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 February 28, 2009, was 360,000 (August 31, 2008 – 360,000).

## 12. MANAGEMENT OF CAPITAL

As at February 28, 2009, the Corporation's capital is composed of share capital of \$49,613,430, cash and cash equivalents of \$18,614,726 and an available revolving line of credit of \$100,000 that had an outstanding balance of \$nil.

# WAVEFRONT TECHNOLOGY SOLUTIONS INC.

Notes to Consolidated Financial Statements (Unaudited)

---

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.

## 13. 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.

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 February 28, 2009, the Corporation had \$18,614,726 of cash and cash equivalents.

Cash includes \$17,000,000 held in guaranteed investment certificates bearing interest at 0.85% maturing on March 29, 2009.

## WAVEFRONT TECHNOLOGY SOLUTIONS INC.

Notes to Consolidated Financial Statements (Unaudited)

The following are the contractual undiscounted financial liabilities as at February 28, 2009:

	<b>Total</b>	<b>less than 1 year</b>	<b>2 – 3 years</b>	<b>4 – 5 years</b>	<b>greater than 5 years</b>
Accounts payable and accrued liabilities	827,332	827,332	-	-	-
Amounts due to shareholders	145,912	145,912	-	-	-

In addition, the Corporation has an authorized revolving line of credit available of \$100,000, with nil amounts outstanding as at February 28, 2009. The revolving line of credit bears an interest rate of prime plus 0.25% and is repayable on demand and secured by a limited personal guarantee and a guaranteed investment certificate of a shareholder.

### Credit risk

Credit risk arises from the potential that a counterparty to a financial instrument fails to meet its contractual obligations. The Corporation manages credit risk associated with 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 February 28, 2009, eight customers represent 78% of the accounts receivable. The trade receivable distribution of the Corporation is as follows:

	<b>Total</b>	<b>Current</b>		
		<b>1 -90 days</b>	<b>91 – 120 days</b>	<b>121 + days</b>
Accounts receivable	127,569	96,302	11,232	20,035

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 Rights agreements (Note 8).

### Foreign currency risk

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

## WAVEFRONT TECHNOLOGY SOLUTIONS INC.

Notes to Consolidated Financial Statements (Unaudited)

---

The US dollar carrying amounts subject to exposure to foreign currency risk as at February 28, 2009 is as follows:

	US dollars
Cash and cash equivalents	411,090
Accounts receivable	61,927
Accounts payable and accrued liabilities	(106,606)

Based on the above exposures as at February 28, 2009, and assuming that all other variables remain constant, a 5% depreciation or appreciation of the Canadian dollar against the US dollar would result in a decrease or increase in the Corporation's net loss and comprehensive loss of approximately \$23,280 applicable to the US dollar exposure.

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

### **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 February 28, 2009, and assuming that all other variables remain constant, a 500 basis point interest rate decrease or increase would result in a decrease or increase in the Corporation's net loss and comprehensive loss of approximately \$20 applicable to the interest rate fluctuation.

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

### **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 overriding 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 February 28, 2009, and assuming that all other variables remain constant, a 10% decrease or increase in commodity prices would result in a decrease or increase in the Corporation's net loss and comprehensive loss of approximately \$3,324 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.

## **14. 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

## WAVEFRONT TECHNOLOGY SOLUTIONS INC.

Notes to Consolidated Financial Statements (Unaudited)

---

an adjustment to income. The weighted average number of common shares outstanding was 71,467,488 (February 29, 2008 – 51,920,405).

Diluted loss per share is computed by giving effect to the potential dilution that would occur if stock options and common share purchase warrants were exercised. The treasury stock method assumes that the proceeds received from the exercise of the “in-the-money” stock options and common share purchase warrants are used to repurchase common shares at the average market price for the period ended February 28, 2009.

In determining diluted loss per share, the weighted average number of shares outstanding was increased by 1,101,560 (February 29, 2008 – 802,582) for stock options eligible for exercise where the average market price of the common shares for the year exceeds the exercise price. The diluted weighted average number of shares outstanding was 72,569,048 (February 29, 2008 – 52,722,987). As the result was anti-dilutive in both periods ending February 28, 2009 and February 29, 2008, no adjustments were made to net loss to calculated diluted loss per share.

### 15. SEGMENTED INFORMATION

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

<b>Six months ended February 28, 2009</b>	<b>Equipment and technology \$</b>	<b>Oil and gas properties \$</b>	<b>Corporate and other \$</b>	<b>Total \$</b>
Revenue	427,078	43,170	228,511	698,759
Net loss for the period	(2,074,718)	(1,802,054)	(362,908)	(4,239,680)
Segment assets	6,627,256	3,340,524	17,971,926	27,939,706
Capital expenditures	1,487,243	382,026	34,204	1,903,473

# WAVEFRONT TECHNOLOGY SOLUTIONS INC.

Notes to Consolidated Financial Statements (Unaudited)

<b>Six months ended February 29, 2008</b>	<b>Equipment and technology \$</b>	<b>Oil and gas properties \$</b>	<b>Corporate and other \$</b>	<b>Total 2007 \$</b>
Revenue	430,779	50,395	145,930	627,104
Net loss for the period	(1,113,312)	(580,718)	(451,780)	(2,145,810)
Segment assets	4,145,126	6,758,114	16,025,340	26,928,580
Capital expenditures	369,048	351,329	290	720,667

<b>Geographic Information</b>	<b>Six months ended February 28, 2009</b>		<b>Six months ended February 29, 2008</b>	
	<b>Revenue \$</b>	<b>Total assets \$</b>	<b>Revenue \$</b>	<b>Total assets \$</b>
Canada	566,114	25,893,645	575,712	22,409,331
United States	132,645	2,046,061	51,392	4,519,249
	698,759	27,939,706	627,104	26,928,580

During the six month period ended February 28, 2009, the Corporation recorded revenue from twenty-seven customers (2008 – twenty-eight customers). Sales in 2009 from the top three customers amounted to \$102,825, \$66,091, and \$39,061, which represented 15%, 9% and 6%, respectively of total revenue. Sales in 2008 from the top three customers amounted to \$149,419, \$118,138 and \$68,288, which represented 24%, 19% and 11%, respectively of total revenue.

<b>Three months ended February 28, 2009</b>	<b>Equipment and technology \$</b>	<b>Oil and gas properties \$</b>	<b>Corporate and other \$</b>	<b>Total \$</b>
Revenue	190,161	12,336	65,307	267,804
Net loss for the period	(1,334,682)	58,425	(268,488)	(1,544,745)
Segment assets	6,627,256	3,340,524	17,971,926	27,939,706
Capital expenditures	970,215	-	16,648	986,862

# WAVEFRONT TECHNOLOGY SOLUTIONS INC.

Notes to Consolidated Financial Statements (Unaudited)

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

<b>Geographic Information</b>	<b>Three months ended February 28, 2009</b>		<b>Three months ended February 29, 2008</b>	
	<b>Revenue \$</b>	<b>Total assets \$</b>	<b>Revenue \$</b>	<b>Total assets \$</b>
Canada	225,205	25,893,645	321,725	22,409,331
United States	42,599	2,046,061	20,561	4,519,249
	267,804	27,939,706	342,286	26,928,580

## 16. RELATED PARTY TRANSACTIONS

During the six month period ended February 28, 2009, the Corporation had the following related party transactions:

- As at February 28, 2009, the recorded amounts related to Boulder's exercise of non-participation rights totaled \$780,436 (August 31, 2008 - \$1,085,773). Under the Joint Operating Agreement, the Corporation will receive all production revenues from production wells associated with the costs incurred until such time that the Corporation is repaid 200% of the costs incurred, after which, production revenues will revert back to the working interest proportions. There are no other contractual obligations for Boulder to repay the Corporation other than the assignment of production revenues.
- Of the stock options exercised during the period ended February 28, 2009, 375,000 were exercised by directors of the Corporation at prices ranging from \$0.55 to \$0.50. Of the stock options exercised during the period ended February 29, 2008, 40,000 were exercised by director of the Corporation at a price of \$0.50.
- During the reporting period 500,000 incentive stock options were issued to directors of the Corporation with an exercise price of \$0.54. The incentive stock options are set to expire January 5, 2014.

## **WAVEFRONT TECHNOLOGY SOLUTIONS INC.**

Notes to Consolidated Financial Statements (Unaudited)

---

- d. Subsequent to the reporting period 210,000 incentive stock options were exercised by directors of the Corporation at a price of \$0.44.

### **17. 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.

### **18. COMPARATIVE FIGURES**

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

*Powerwave and Primawave are registered trademarks of Wavefront Technology Solutions Inc.*