



---

**Wavefront Technology Solutions Inc.**

- Second Quarterly Report**
- For the period
- year ended
- February 28, 2009**



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

---

### Management's Responsibility

The management of Wavefront Technology Solutions Inc., formerly 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 April 24<sup>th</sup>, 2009.

### Non-GAAP Measures

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

### Overview of Business

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

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

*Powerwave* transforms low-producing or even abandoned oil fields into profitable reservoirs.

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

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.

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.



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

---

To facilitate more rapid marketing and distribution of Powerwave in the international oil sector during the reporting period the Corporation requested and Halliburton agreed to terminate the patent license and collaboration agreements. The license agreement with Halliburton provided Halliburton with non-exclusive rights to the Powerwave technology in the United States and Canada, and exclusive rights outside the non-exclusive territory. The Corporation has been involved in discussions with other potential agents to distribute Powerwave and Primawave on a non-exclusive basis internationally.

### OVERALL RESULTS FROM OPERATIONS FOR THE SIX MONTHS ENDED FEBRUARY 28, 2009

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

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 asset has been an excellent oilfield lease for field-proving new Powerwave tool systems. Because it is shallow the cost to deploy tools such prototypes as the now commercially deployed Dragonfly has minimized company expenses while gaining access to much needed data. In many cases the data obtained from deployment in Rogers County has directly lead to agreements with oil companies.

To date, all Powerwave tool systems were designed to attach to the downhole end of the injection tubing at a perforated interval in the well, discharging fluid in a pattern of controlled pulses. This type of Powerwave configuration required the client to conduct a well workover where the injection tubing had to be removed from the well, the Powerwave tool fixed to the last string on injection tubing and the entire injection tubing re-installed. Depending on depth and time to complete this process the costs may run upwards of \$50,000 in Western Canada and for offshore or very deep installations such as Alaska, significantly more. To address the issue of deployment costs during the reporting period the Corporation developed and tested in Rogers County a mechanical tool that could be deployed without having to pull the injection tubing. This new Powerwave tool is deployable by simply lowered through the tubing and landed at the end of the injection string using readily available oilfield equipment. Wireline is a widely used well intervention operation conducted with a braided cable. It is believed the wireline installation of the new wireline deployable tool will, in the predominant amount of cases, to be less than \$5,000. This new Powerwave tool is also coil-tubing conveyable and will be cross marketed for oil and gas well stimulation (i.e. for acid placement) where the Corporation has experience numerous successes.

In addition this new Powerwave tool the Corporation also responded to client recommendations to develop another Powerwave tool system that could be used with existing production equipment such as surface hydraulic and electric drives, and standard oilfield rods. In response to these suggestions the Corporation developed a Powerwave



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

---

tool system is a rotary tool that is driven by a surface-mounted hydraulic or electric drive that is coupled to standard oilfield rods allowing the client to use equipment they may have in inventory. Another feature of this Powerwave tool is that it is modular and numerous sections can be connected in series to stimulate long injection intervals during flooding operations.

With current and scheduled projects throughout Canada and the United States, the Corporation has 90 confirmed Powerwave systems contracts (licenses) with 25 clients, 13 of which have approximately 4,300 injection wells. It is the Corporation's goal to expedite all installations however the installation cycle of Powerwave however, is dramatically affected by the timetable of an oil producer. Thus, the scheduling of the installation of Powerwave systems can be beyond the control of Wavefront. As such, the revenue generated by the Powerwave systems can only be realized when the systems are installed and based on the commercial terms agreed to with the client.

During the period of significant note was the landing of the Corporations first offshore platform Powerwave contract as well as the initiation of the first or several now installed Powerwave CO<sub>2</sub> injection programs. With the number of offshore platforms as wells as CO<sub>2</sub> injection programs throughout the globe these installations represent considerable opportunity to expand the use of Powerwave, increasing the number of users worldwide.

In the environmental sector, over the reporting period the Corporation also undertook noteworthy Primawave projects with third party environmental consulting firms throughout the United States. The most prominent outcome was the cost saving realized in a New Jersey injection program where, due to Primawave; the number of injection points was reduced from an anticipate 483 to an actual 120. The reduction in the number of wells saved \$176,100 or 44% in remedial costs (\$401,500 to \$225,400). With the advent of positive results such as the New Jersey Primawave project and the dissemination of those results within the environmental community, Primawave is becoming the injection strategy of choice for a number of Wavefront clients. The Corporation expects the number of Primawave rental sales to steadily increase as the addition of a Primawave-focused sales force and broad marketing efforts in the United States as well as in the international user sector bear results.

Current Primawave tools have gained wide success in the environmental sector for injecting remedial fluids however; the current suite of Primawave tools are limited in that (1) a maximum fluid injection pressure of 100 psi; (2) clays or geological media having very high clay content could not be effectively stimulated; and, (3) suspensions or slurries could not be injected through the tool.

To meet these challenges the Corporation developed a new version of one of the Primawave tools. The new version of the Primawave tool is a rotary surface-mounted tool that permits the Corporation to market across the entire remedial injection spectrum. The new Primawave tool design and operating criteria include; (1) maximum fluid injection pressure of 1,200 psi; (2) can effectively stimulate clays including the ability to hydraulic fracture such media; and, (3) can effectively introduce suspensions or slurries though the tool.

### **Acquisition of Predator Pumps Ltd.**

Effective January 31, 2009, the Corporation acquired (the "Acquisition") all of the issued and outstanding shares of Predator Pumps Ltd. ("Predator"), a privately-held Alberta company that provides specialized pumping equipment and services for use in heavy oil wells. Total consideration for the Acquisition was announced at \$750,000 (the "Purchase Price") to be payable in cash. The originally announced Purchase Price was reduced by \$49,324 due to current asset level maintenance conditions which the vendors did not maintain. The Acquisition agreement also



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

---

contemplates contingent consideration of \$150,000, also payable in cash, subject to the maintenance of certain sale performance conditions one year from the closing of the Acquisition. Subsequent to the Acquisition and prior to February 28, 2009, the Corporation repaid Predator's long-term indebtedness totaling \$111,807.

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

### Consolidated Results – six months ended February 28, 2009

#### Revenues

Revenues for the second quarter ended February 28, 2009 were \$698,759. This is an increase of \$71,655 over the comparative period in 2008 that recognized revenues of \$627,104. 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, and an increase in service and royalties related to Powerwave and the tubing pumps, bailer and surge cup rentals.

During the period ended February 28, 2009, the Corporation recognized production and operator revenues of \$43,170 (2008 - \$84,469) related to the Rogers County and Rodney South ventures. Of the production and operator revenue recognized, \$34,324 (2008 - \$50,395) relates to the Rodney South venture, whereas \$8,845 (2008 - \$30,074) relates to Rogers County. Production revenue alone from Rogers County decreased by \$18,282 to \$25,530 (2008 - \$43,812).

Declines in production revenue attributed to Rodney South relate to operational difficulties incurred by the operator, Greentree Gas & Oil Ltd. ("Greentree"). Oil production efficiency was low due to a 23-day shut-in following the freeze-up of the production facilities. Further production setbacks were encountered relating to a corrosion issue in the injection system at Rodney South. These issues together with normal operating costs have caused production costs for Rodney South to be significantly out of line with the Corporations expectations. The Corporation, as a royalty right holder has no influence on the operations of Rodney South; however, it is trying to work with Greentree to control operating costs and resolve operation issues.

During the six month period ended February 28, 2009 service revenue and royalties totalled \$424,889 compared to the \$396,705 for the comparative period. During the reporting period revenues related to the tubing pump and bailer product lines decreased by \$219,125. The decline however, was offset by increases in Powerwave and Primawave revenues, as the Corporation continues to secure additional contracts and install Powerwave and Primawave systems. During the reporting period, the Corporation also provided new customers with discounts and other inducements in order to expedite the installation so that the Corporation can initiate revenue recognition. The discounts and inducements ranged from overall pricing discounts to without charge 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, \$566,114 (2008 – \$575,712) in revenue was generated in Canada, and \$132,645 (2008 - \$51,392) from the USA and abroad.



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

---

### Direct Expenses

Direct expenses relate to service revenue and royalties revenue, which is associated with the delivery of Powerwave and Primawave, and tubing pumps, bailer and surge cup rentals. Direct expenses increased to \$224,928 (or 52.9% of gross services and royalty revenue) compared to \$205,593 (or 51.8% of gross service and royalty revenues) for comparative reporting period. The increase in direct costs corresponds to the increase in service revenue and royalties revenues.

Direct expenses related to Powerwave and Primawave are a result of the Corporation's decision to install the systems to ensure operational results. The Powerwave and Primawave business model is not necessarily to provide installation services; as such, future direct cost may decrease as the Corporation's product mix moves more to Powerwave and Primawave and away from installations. Direct expenses related to the tubing pumps, bailer and surge cup rentals include project consumables and labour and are expected to remain constant.

### Other Expenses

Other expense for the period amounted to \$4,713,511, compared to \$2,567,321 in 2008. The increase in operating expenses of \$2,146,190 was principally a result of the following changes:

- i) During the first three months of the reporting period there was a precipitous drop in commodities prices, which in general has affected the valuation of resource properties across the energy sector. The drop in commodity prices was viewed by the Corporation as a triggering event, causing it re-assess the fair value of the Corporation's oilfield assets, i.e., Rogers County mineral rights and the assets associated with oilfield, i.e., the Royalty Rights in South Rodney oilfield. As a result, the Corporation realized a non-cash write-down of its Rogers County oilfield property, plant and equipment and non-participation amounts by \$1,133,936 and the Royalty Rights by \$555,212 (see Assets and Liabilities, and Transaction with Related Parties for further discussion).
- ii) General and administrative expenses, totalled \$1,970,968, an increase of \$475,627 over the comparative period in 2008. The following table provides comparative details for the general and administrative expenses.

	February 28, 2009 \$	February 29, 2008 \$
Wages, employee benefits, and contract employees	1,222,497	847,805
Office	300,313	232,676
Professional fees	178,663	237,396
Vehicle	101,061	80,159
Consultants	91,755	27,228
Repairs and maintenance	72,865	67,037
Miscellaneous	2,005	3,040
Bad debts	1,810	Nil
	<u>1,970,968</u>	<u>1,495,341</u>

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

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

---

- An increase in “wages, employee benefits, and contract employees” expense of \$374,692 that can be attributed to an increase in wage rates and numbers of staff. As at February 28, 2009, the Corporation employed 22 full-time employees and 7 casual / part-time employee (February 29, 2008 - 23 full-time employees and 1 casual / co-op student employee). 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.

In February 2009, the Corporation undertook certain cost cutting measures to ensure that its labour force was in line with the current economic environment. As such, labour costs, excluding any severance paid, are expected to lower for the remainder of the fiscal year or till such time that the economic environment changes.

- An increase in “office” expenses of \$67,637 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 “consultant” expenses of \$64,527 relates to the hiring of sales consultants and engineering consultants that were assisting in the development of additional Powerwave tools designs.
  - An increase in “vehicle” expenses of \$20,902 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.
  - Offsetting the above noted increases was a decrease in “professional” expenses of \$58,733.
- iii) An increase of “stock-based compensation” expense of \$211,309 that relates to increase volatility of the Corporation's shares and the issuance of additional incentive stock options.
- iv) An increase in “selling, marketing, and travel” expense of \$79,100 which relates to increased activity and resulting increase in the size of the Corporation's Powerwave and Primawave sales force and operating at multiple office locations across Canada and the United States. Additionally the Corporation has elected to provide additional service work to existing Powerwave customers as inducements to securing larger contracts for its Powerwave systems in the oilfield in which it operates. Subsequent to the reporting period the Corporation expanded its sales network focusing on the United States southeast and west coast locations. In order to control cost, any additional expansion of sales efforts will be through agents in key international and domestic territories.
- v) The foreign currency translation of US dollar denominated expenses, assets and liability resulted in a increase in foreign currency gain of \$267,553 related to the devaluation of the Canadian dollar against the United States dollar.
- vi) Additional other operating expenses resulted in expense decreases amounting to \$41,441, and relate mainly to the following:



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

---

- A decrease in "amortization, depreciation, depletion and accretion" expenses of \$15,960. The small decrease principally relates to the Corporation's reduced depreciation and depletion of the Rogers County oilfield related assets, which is a function of reduced production volumes.
- A decrease of "listing and public company fees" of \$32,326 which relates to the associated expenses related to level of general public market activity as result of the volatility of the financial markets. It is expected that the expenditure levels will increase in forthcoming quarters to improve secondary market awareness of the Corporation.

### Net Loss and Loss Per Share

The basic and diluted net loss, before the write-down of property, plant and equipment and intangible assets for the period ended February 28, 2009 was \$4,239,680 (\$0.06 per share), compared to \$2,145,810 (\$0.04 per share) for the comparative period of February 29, 2008. The extraordinary non-cash write-down of property, plant and equipment and intangible assets for the period ended February 28, 2009 totalled \$1,689,148 (representing a basic and diluted loss per share of \$0.024 per share).

The basic and diluted net loss, before the extraordinary non-cash write-downs of property, plant and equipment and intangible assets, for the period ended February 28, 2009 was \$2,550,532 (\$0.036 per share), compared to \$2,145,810 (\$0.041 per share) in 2008. 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 and quicker market penetration.

### Consolidated Results – three months ended February 28, 2009

#### Revenues

Total revenues for the three months ended February 28, 2009 were \$267,804, a decrease of \$74,482 from the revenues recognized in the corresponding period of 2008 of \$342,286. The decrease in revenue is primarily a result of the decrease in production revenue and operator fees, which amounted to \$3,847 (2008 - \$53,839) related to the Rogers County and Rodney South ventures. Interest income also declined by \$13,857 to \$79,170 (2008 - \$93,027), which relates to the decreased interest rates during the reporting period.

#### Direct Expenses

Direct expenses related to revenue increased \$69,898 to \$132,218 (or 72% of gross services and royalty revenue). The current period's increase in direct costs relates to the Corporation providing installation inducements to Powerwave clients.



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

---

### Other Operating Expenses

Other operating expense for the period amounted to \$1,680,331, compared to \$1,407,505 in 2008. The increase in operating expenses of \$272,826 was principally a result of the following changes:

- i. General and administrative expenses totalling \$1,054,487 an increase of \$214,931 from the expenses recognized in the corresponding three month period ending February 29, 2008 of \$839,556 comprised the largest increase in other operating expenses. The following table provides comparative details for the general and administrative expenses.

	February 28, 2009 \$	February 29, 2008 \$
Wages, employee benefits, and contract employees	703,131	467,053
Office	154,889	119,823
Professional fees	79,709	157,594
Consultants	43,349	23,397
Vehicle	42,379	45,609
Repairs and maintenance	33,101	23,294
Miscellaneous	1,446	2,786
Bad debts	(3,516)	Nil
	<u>1,054,487</u>	<u>839,566</u>

- ii. An increase in "research and development" expense of \$100,949 that relates to increased research work related to new tool designs and monitoring of the Powerwave affects for clients as inducements to securing larger, longer-term contracts.
- iii. An increase in "stock-based compensation" expense of \$153,953 that relates to increase volatility of the Corporation's shares and the insurance of additional incentive stock options.
- iv. The other major increase in other operating expenses for the three months ended February 29, 2008 was an increase in "direct costs" of \$69,898 that relates to the decision to provide installation inducements to Powerwave clients, and consumables and labour associated with tubing pumps, bailer and surge cup rentals.

### Net Loss and Loss Per Share

The net loss for the three months ended February 28, 2009 was \$1,544,745 (\$0.02 per share), compared to \$1,127,539 (\$0.02 per share) in 2008.

### Seasonality of Operations

Certain oil field 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 main product offering, in relation to oil field services, are rental and sale of downhole equipment. The target geographical area of the product offering is



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

---

Alberta and Saskatchewan. Due to temperature influences on ground conditions, the months of December, March and April have lower activities.

The Corporation however, is focusing its resources on Powerwave and Primawave technologies. There are no known seasonal fluctuations in regards to oil production, where the Corporation has mineral rights or enters into licensing or usage agreements in either targeted implementation sectors.

### LIQUIDITY AND CAPITAL RESOURCES

#### Assets and Liabilities

Total assets decreased by \$3,989,021 to \$27,939,706. The decrease was primarily due to a decrease of \$3,820,993 in cash that was used to fund working capital and for the purchase of property, plant and equipment. Assets were also affected by the Corporation's Acquisition of Predator (which increased its property, plant and equipment by \$213,490), its decision to write-down its oilfield related property, plant and equipment and Royalty Rights.

During the reporting period ended February 28, 2009, accounts receivable decreased by \$407,198, while prepaid expenses increased by \$204,166. These changes reflect timing differences in collecting receivables and an 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 expenses until they are expensed to direct costs.

Additional changes to assets include the increase in deposits by \$49,324 related to the working capital hold back and addition of goodwill by \$410,853 (see "Acquisition of Predator Pumps Ltd." on page 3 for further discussion).

As at February 28, 2009 the Corporation held a 40% working interest in an aggregate of 780 acres, consisting of four separate oilfield leases, and a 90% working interest in an aggregate of 580 acres, consisting of four separate oilfield leases in Rogers County, Oklahoma. During the first quarter ended November 30, 2008, there was a material decline in commodity prices, so the Corporation recorded a write-down of its Rogers County non-participation amounts by \$1,133,936 (August 31, 2008 – \$1,056,989) (see Transaction with Related Parties for further discussion). No write-down was provided for in the second quarter ended February 28, 2009.

The Corporation also recorded a write-down of its Royalty Rights associated with the South Rodney Farm-in Agreement of \$555,212 (August 31, 2008 – \$nil) in the first quarter ended November 30, 2008. No write-down was provided for in the second quarter ended February 28, 2009.

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.

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



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

---

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

Total liabilities decreased by \$330,084 from the prior year-end to \$1,148,540. This was principally due to decreases in accounts payable and accrued liabilities by \$241,228 to \$827,331.

### **Liquidity**

As at February 28, 2009, the Corporation had working capital of \$18,298,819. 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 that, as each client experiences positive Powerwave results, further uptake of the technology will require the Corporation to increase its Powerwave inventories.

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

### **Financings**

During the six month period ended February 28, 2009, the Corporation did not undertake any financings. However, 485,000 incentive stock options were exercised during the period ended February 28, 2009, 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.

### **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.



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

---

As at February 29, 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 the remaining balance of up to \$72,389 (August 31, 2008 – \$81,166). The related 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 costs 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 \$65,885 from a third party supplier to manufacture 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 April 24, 2009, there are no amounts owed in respect of the lines of credit and the Corporation had \$17,859,175 of cash on hand. Of the cash on hand, the Corporation has \$17,000,000 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:



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

Payments Due by Period					
As at February 28, 2009	Total	Less than 1 Year	1 – 3 Years	3 – 5 Years	More than 5 Years
Shareholder loans	\$ 145,912	\$ 145,912	\$ -	\$ -	\$ -
Operating lease obligations	262,432	94,443	94,932	73,057	-
Greentree Gas and Oil Royalty Rights	72,389	72,389	-	-	-
Supplier purchase obligations	65,885	65,885	-	-	-
	\$ 546,618	\$ 378,629	\$ 94,932	\$ 73,057	\$ -

Management is of the opinion that its working capital position of \$18,298,819 as at February 28, 2009 is sufficient to cover its current commitments and operations for the forthcoming fiscal year.

The majority of expenditures related to Greentree Farm-in have been incurred. Management does not expect any further expenditures related to this project in fiscal 2009. All future expenditures and investments in capital assets and projects will be governed by the Corporation's working capital position throughout the year.

### OFF-BALANCE SHEET ARRANGEMENTS

The Corporation has no off balance sheet arrangements.

### TRANSACTIONS WITH RELATED PARTIES

- i) Of the stock options exercised during the six month 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 six month period ended February 29, 2008, 40,000 were exercised by director of the Corporation at a price of \$0.50. Subsequent to the reporting period 210,000 incentive stock options were exercised by directors of the Corporation at a price of \$0.44.
- ii) 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 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-



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

---

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.

### PROPOSED TRANSACTIONS

The Corporation currently has no material transactions outside the normal course of commercializing Powerwave and Primawave.

### OUTLOOK

It is believed that the lower commodity prices may also force certain 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 would be, for cash rich producers, the 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 Powerwave 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 the United States and Canadian unemployment rate, the volatility in the commodity markets and foreign exchange rates.

As a result of the above, the Corporation will continue to focus its efforts for the remainder of fiscal 2009 on the following:

- i) Installing existing and pending the back order of Powerwave projects;
- ii) Expand the use of Powerwave to current clients across the estimated 5,672 injectors in those oilfields currently utilizing Powerwave;
- iii) Expand market penetration of Powerwave and Primawave through a third-party distributorships and certified agents throughout the globe;



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

iv) Develop new users in the tubing pump and bailer market beyond the local 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)

	2nd Qtr Feb 28 '09	1st Qtr Nov 30'08	4th Qtr Aug 31 '08	3rd Qtr May 31 '08
Revenue	\$ 267,804	\$ 430,955	\$ 441,449	\$ 684,009
Net Loss	\$ (1,544,745)	\$ (2,694,935)	\$ (3,603,596)	\$ (1,195,773)
Basic and diluted loss per share	\$ (0.022)	\$ (0.038)	\$ (0.052)	\$ (0.016)
Common shares outstanding				
Weighted average shares outstanding	71,467,488	71,386,072	62,035,011	60,004,288
Diluted shares outstanding	72,569,048	71,753,117	62,666,627	60,712,744

  

	2nd Qtr Feb 29 '08	1st Qtr Nov 30'07	4th Qtr Aug 31 '07	3rd Qtr May 31 '07
Revenue	\$ 342,286	\$ 284,818	\$ 467,863	\$ 711,538
Net Loss	\$ (1,127,539)	\$ (1,018,271)	\$ (1,234,352)	\$ (1,042,086)
Basic and diluted loss per share	\$ (0.021)	\$ (0.021)	\$ (0.028)	\$ (0.020)
Common shares outstanding				
Weighted average shares outstanding	51,920,405	48,572,112	47,937,111	47,927,816
Diluted shares outstanding	52,772,987	49,374,675	48,713,889	48,707,271

(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.

### 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.



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

---

### **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 ending 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 first quarter ending November 30, 2011, with the first set of audited, IFRS compliant, consolidated financial statements required for the Wavefront's year ending August 31, 2012.

IFRS will not only impact the presentation and disclosure of items 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 prior 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. For the balance of the current fiscal year, the Corporation will continue to work with Deloitte & Touche LLP to complete the project scoping and planning phase, and commence a comprehensive IFRS conversion phase over the remainder of the current fiscal year.

### **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.

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

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

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

---

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

### **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.

### **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 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 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.

## **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 interim unaudited 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 in the unaudited interim financial statements and that (ii) the interim



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

---

unaudited financial statements fairly present in all material respects the financial condition, results of operations and cash flows of the Corporation.

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