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**Wavefront Technology Solutions Inc.**

- First Quarterly Report**
- For the
- period ended
- November 30, 2009**



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

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### MANAGEMENT'S RESPONSIBILITY

The management of Wavefront Technology Solutions 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 contains information available to January 22<sup>nd</sup>, 2010.

### 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 highly uniform waves 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 the "Technology").

#### *Powerwave*

Powerwave is a cost-effective, economically beneficial optimization technique for existing oil recovery and oil well stimulation strategies that employ injection. Powerwave can increase both oil production and reserves from existing assets. Production increases related to Powerwave have been demonstrated to far exceed minimum payback requirements.

There are two primary uses of Powerwave in the oil sector. The first is enhanced or improved oil recovery. Enhanced or improved oil recovery is an approach involving the injection of water or CO<sub>2</sub> (other fluids are also injected) into the reservoir through dedicated wells to displace by-passed oil. The injected fluids 'sweep' or 'push' by-passed oil to adjacent production wells. Potential problems associated with flood approaches include inefficient distribution of the injected water due to variable reservoir conditions, or early water breakthrough to production wells. Both of these problems can be minimized or mitigated with Powerwave. Enhanced or improved oil recovery projects tend to last the remaining productive life of the assets, which can be many years or often decades.

The second use of Powerwave is in oil well workovers or stimulations. An oil well workover is a remedial operation performed on a producing well in order to restore or enhance productivity. In many instances a chemical is pumped into the well to stimulate a producing interval however during this operation the importance of placing the chemical correctly is often underestimated. Well workovers or stimulations can be completed in hours or days.



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

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### *Primawave*

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.

There are currently two basic approaches for the remediation of contaminated sites. The first is ex-situ treatment, which involves the removal of the contaminated material for treatment and proper disposal. An example of a conventional ex-situ containment/remediation method used since the 1980s is known as the "pump-and-treat" method. This involves injecting groundwater in a contaminated area with the intent of driving the contaminant to production wells, where the contaminant is pumped out of the ground for treatment and proper disposal. Pump-and-treat methods tend last longer periods of time, sometimes encompassing years.

The second remediation approach is the in-situ approach, which involves treating the contaminants onsite, which involves far less disturbance to the surrounding environment than ex-situ treatments. This usually consists of some form of remedial fluid combined with a mechanical method of delivering the treatment liquid to the contaminant in the ground. In fact, up to 80% of in-situ remediation technologies are water-based and involve the application of an active agent. For example, in-situ bioremediation involves adding a carbon substrate to stimulate biological activity to remediate the contamination. In-situ methods are shorter in duration and can last hours to days per injection site.

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 Powerwave or Primawave system to carry out the licensed process. As such the Corporation capitalizes Powerwave and Primawave 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.

### **OVERALL RESULTS FROM OPERATIONS**

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

During the quarter the Corporation made great strides with Powerwave that moving forward should broaden the Corporation's opportunities around the globe.

Early in the fiscal quarter a much anticipated Powerwave program commenced with a major oil producer in Alaska. This Powerwave program represents a significant opportunity for the Corporation as billions of barrels of undeveloped reserves remain stranded in the many operating fields in the State and a successful outcome of the program may provide for additional deployment of multiple Powerwave systems.

In the later part of the fiscal quarter the Corporation announced that it had entered into a non-binding Letter of Intent with the Subdireccion Tecnica de Explotacion, a department of Pemex PEP ("Pemex") for the use of Powerwave in both single well stimulation and enhanced waterflood applications. Pemex is the largest enterprise in Mexico and Latin America ranks 11<sup>th</sup> in the top 50 crude oil producers worldwide. Subsequent to the quarter the Corporation began executing asset-by-asset contracts related to the Letter of Intent and completed the first single well stimulation. The Pemex relationship may bring substantial rewards to the Corporation as successful implementation of Powerwave may result in long-term contracts for both single well stimulations and waterflood applications.



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

---

Interspaced by the key events outlined above, the Corporation continued to receive positive results from clients on the efficacy of Powerwave in flooding operations. In Eastern Alberta after a 24-month operational period Powerwave provided a 168 per cent increase in oil production above that which would have been produced based on the natural production decline rate established for the three water injection patterns where Powerwave is deployed. Oil decline rate fell 68 per cent, decreasing from a pre-Powerwave rate of 3.4 per cent per month to 1.1 per cent per month with Powerwave. Contributing to the fall in oil decline rate was an increase in incremental oil cut (percentage of oil per barrel of produced fluid). Oil cut increased from a pre-Powerwave value of 1.05 per cent to 2.54 per cent with Powerwave. Subsequent to the fiscal quarter and on the strength of results the client entered into an agreement with the Corporation for the Corporation to initially supply up to 50 Powerwave systems in three operating assets.

Given continued positive outcomes of Powerwave projects additional opportunities for the technology were secured with new clients in Wyoming, Texas, and Alberta. Of note is the Powerwave project to be undertaken in giant Pembina oilfield in Alberta. Pembina is the largest conventional onshore oil field in Canada with more than 11,500 wells covering more than 4,000 square kilometers. The field originally contained more than 7.8 billion barrels of oil, but despite the fact that primary production started in 1953 and secondary (waterflood) recovery started in 1960, less than 20 per cent of the oil has been recovered. Many of the Pembina conventional waterfloods are now approaching maximum recovery and Powerwave may represent a key to unlocking the field's significant remaining oil potential.

### Consolidated Results – three months ended November 30, 2009

#### Revenues

Revenues for the three months ended November 30, 2009 were \$576,327, an increase of \$145,372 over the comparative period in 2008 that recognized revenues of \$430,955. The increase in revenues is primarily a result of return of activity to the service, tubing pump and bailer product lines in Alberta and continued commercialization of Powerwave and Primawave technologies.

During the period ended November 30, 2009, the Corporation recognized production and operator revenues of \$50,136 (2008 - \$39,323) related to the Rogers County and Rodney South ventures. Of the production and operator revenue recognized, \$33,321 (2008 - \$15,526) relates to the Rodney South venture, whereas \$16,815 (2008 - \$15,308) relates to the Rogers County venture.

During the three month period ended November 30, 2009 service revenue and royalties totalled \$501,684 compared to the \$240,102 for the comparative period. The increase in these revenues relate to both the tubing pump and bailer, and Powerwave and Primawave product lines. Tubing pump and bailer product lines revenue totalled \$356,135, an increase of \$213,420 from \$142,715 recorded in the comparative period in 2008. The increase in tubing pump and bailer product line revenues are primarily result of quicker economic recovery of industry activity in the heavy oil sectors of western Saskatchewan and Alberta.

The current strategy of providing discounts and other inducements to new Powerwave and Primawave customers and market leaders continues to result in increased revenue recognition of the Corporation's core technologies. 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 systems that could be installed in a particular oilfield. The Corporation recognizes revenue and the associated project expenses equally over the term of the contracts.



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

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Interest revenue relates to interest generated from the investment of cash from private placements that closed on December 24, 2007 and January 31, 2008 and related warrant exercises. Interest revenue for the reporting period decreased by \$127,023 to \$24,507 with the declining principal balance and lower interest rates.

Geographically, \$435,035 (2008 – \$340,909) in revenue was generated in Canada and abroad, and \$141,292 (2008 - \$90,046) from the USA.

### 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 \$242,705 (or 48.4% of gross services and royalty revenue) compared to \$92,710 (or 38.6% of gross service and royalty revenues) for comparative reporting period.

Direct expenses principally relate to the tubing pump and bailer product lines and, any installation costs related to Powerwave that the Corporation chose to incur as a strategy to increase adaptation of implementation rates. Any losses related to Powerwave projects are immediately recognized and have the affect of increasing direct cost for the period in which they occur or are known to occur. During the reporting period, due to a specific client's operational practices, certain Powerwave systems did not achieve optimal performance in well bores where the systems were installed. The Corporation agreed to share in the re-deployment costs of four new Powerwave systems as the client controls a significant number of water injectors, which resulted in increased direct expenses related to this client of \$84,000. The Corporation views this event as an operational anomaly not related to Powerwave or overall Powerwave system performance.

Direct expenses related to the Technology are a result of the Corporation's decision to install the systems to ensure operational results, and increase adaptation of implementation rates. Given that the value proposition of the Technology lays in the benefits of the process and not the activities surrounding Technology implementation, the longer term business model for Powerwave and Primawave business model is not necessarily to provide installation services; as such, future direct cost may decrease as the Corporation's moves more towards Technology implementation being undertaken by the client. Direct expenses related to the Technology (once normalized by removing the re-deployment costs noted above) approximated that for the comparative period.

In the near future in instances where the client requests the presence of technical staff for Technology implementation, the Corporation will charge for such services. 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 \$1,652,109, compared to \$3,033,180 in 2008. The decrease in these expenses of \$1,381,071 was principally a result of the following changes:

- i) During the first three months of the comparative reporting period in 2008 there was a precipitous drop in commodities prices which, in general, has affected the valuation of resource properties across the energy sector. The drop in commodity prices was viewed by the Corporation as a triggering event, causing it to reassess the fair value of the Corporation's oilfield related assets, i.e., Rogers County mineral rights and associated oilfield assets, and the South Rodney Net Over-riding Royalty Rights. As a result, the Corporation recorded a non-cash



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

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impairment charge against its Rogers County oilfield property, plant and equipment and non-participation amounts of \$1,133,936 and the Royalty Rights by \$555,212 (see Assets and Liabilities, and Transaction with Related Parties for further discussion). Total prior period non-cash write-downs totaled \$1,689,148. 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. No additional impairment charges were recorded during the first quarter ended November 30, 2009.

- ii) General and administrative expenses, totalling \$1,050,418, comprised the second largest increase in operating expenses. The following table provides comparative details for the general and administrative expenses.

	2009 \$	2008 \$
Wages, employee benefits, and contract employees	552,713	519,366
Professional fees	107,811	98,954
Office	180,356	145,425
Repairs and maintenance	59,709	39,764
Vehicle	51,649	58,682
Consultants	82,202	48,406
Bad debts	13,406	5,326
Miscellaneous	2,572	559
	<b>1,050,418</b>	<b>916,482</b>

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

- An increase in “office” expenses of \$34,931 relates to the establishment of a new sales office in Calgary, Alberta, and the establishment of test facility and increase warehouse space for Powerwave and Primawave systems in Edmonton, Alberta. Additionally, included in these cost are the expenses associated with the increase of sales personnel.
- An increase in “consulting fees” of \$33,796 that can be attributed to expenses related to engineering consultation on Powerwave and Primawave system design
- An increase in “wages, employee benefits, and contract employees” expense of \$33,347 that can be attributed to an increase in wage rates. For fiscal 2009, the Corporation employed 27 full-time employees and 2 casual employees (2008 - 28 full-time employees and 1 casual employee). The current reporting period reflects a greater focus in Powerwave sales personnel and personnel required for Powerwave and Primawave system design, quality control / quality assurance, as well as client and licensee training in the use of Technology systems.
- An increase in “repairs and maintenance” expense of \$19,945 related to various product line system repairs that were not charged to jobs and did not relate to the betterment of those systems. Of the repairs and maintenance expense totalling \$59,709 for the reporting period, \$31,658 relate to the repairs and maintenance of tubing pumps and bailers, \$21,488 related to the maintenance of the in-house testing



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

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facility for Powerwave and Primawave systems as well as repairs of Powerwave and Primawave systems, and \$8,425 related to the maintenance of the Rogers County oilfield.

- iii) An increase in "amortization, depreciation, depletion and accretion" expenses of \$93,029. Of the \$214,059 in amortization, depreciation, depletion and accretion expenses, \$146,285 relates to property, plant and equipment associated with Powerwave, Primawave, tubing pump and bailer product lines. The increase relates to the Corporation maintaining a larger inventory of Powerwave, Primawave, tubing pump and bailer systems to meet grow customer demand.
- iv) Off-setting the above noted increase in expenses was a decrease of \$128,653 in "selling, marketing, and travel" expense that relates to increased activity in the comparative period. Additionally in the current reporting period there was reduced activity related to trade shows and need for travel as the Corporation increases its sales force. The Corporation continues to pursue the use of and agents for Powerwave in Southeast Asia, Europe and Mexico, and for Primawave in Southeast Asia and Europe.
- v) The other major change in expenses for the three months ended November 30, 2008 to 2009 was an increase in "foreign exchange" expense of \$220,399, which is a result of the strengthening of the Canadian dollar.

### Net Loss and Loss Per Share

The basic and diluted net loss, before the write-down of property, plant and equipment, intangible assets and goodwill for the period ended November 30, 2009 was \$1,318,487 (\$0.02 per share), compared to \$1,005,787 (\$0.02 per share) in 2008.

The basic and diluted net loss for the period ended November 30, 2009 was \$1,318,487 (\$0.02 per share), compared to \$2,694,935 (\$0.04 per share) in 2008.

### Seasonality of Operations

Certain oilfield services offered by the Corporation are seasonal and relate to the product offering and geographical extent to which products were offered for sale. The Corporation's product offerings, in relation to oilfield services, are the rental and sale of downhole equipment within the geographical areas of Alberta and Saskatchewan. Due to temperature influences on ground conditions in Alberta and Saskatchewan, the months of December, March and April have lower activities for the oilfield services, rental and sale of downhole equipment.

The Corporation however, is focusing a large part of its resources on Powerwave and Primawave. 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 \$916,991 to \$23,560,609 from the prior year end. The decrease was primarily due to a decrease of \$1,356,243 in cash that was used to fund operations and fund the manufacturing of Powerwave and Primawave systems.



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

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During the reporting period ended November 30, 2009, accounts receivable increased by \$179,678, while inventory and prepaid expenses increased by \$47,272 and \$21,973, respectively. These changes reflect timing differences in incurring installation expenses and collecting receivables and are directly related to increases in Powerwave contacts and the Company's financial accounting policy of recognizing Powerwave revenues and direct costs equally over the term of the contracts.

As at November 30, 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 comparative period in fiscal 2009, the Corporation reviewed the carrying amount of its oilfield property, plant and equipment and non-participation amounts related to the Rogers County venture and, whether there were indicators, events or circumstances that may have caused impairment since the most recently completed fiscal year. As a result of the review, a detailed impairment calculation was completed and the Corporation recorded an impairment charge against its Rogers County property, plant and equipment and non-participation amounts by \$1,133,936. (see "Consolidated Results – Other Expenses" on page 3 for further discussion). No additional impairment charges were recorded during the first quarter ended November 30, 2009.

The Corporation also recorded a write-down of its Royalty Rights associated with the South Rodney Farm-in Agreement of \$555,212 in the comparative period ended November 30, 2008. No write-down was provided for in the first quarter ended November 30, 2009 (see "Consolidated Results – Other Expenses" on page 3 for further discussion).

Given the volatility in the financial and commodity markets, management chose 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 Royalty Rights 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 impairment charges.

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.

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 clients compile their own Powerwave results and there is a greater adaptation of the Powerwave, the strategic importance of the Corporation's oilfield assets diminishes.

Total liabilities increased by \$84,717 from the prior year-end to \$957,759. This was principally due to increases in accounts payable and accrued liabilities by \$117,239 to \$727,463. The increase in accounts payable and accrued liabilities was partially off-set by a reduction in amounts due to shareholders by \$36,348.

### Liquidity

As at November 30, 2010, the Corporation had working capital of \$14,206,007. 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



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

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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 three month period ended November 30, 2009, the Corporation did not undertake any financings. However, 265,000 incentive stock options were exercised by a director of the Corporation during the period ended November 30, 2009, at a price of \$0.45 resulting in gross proceeds of \$119,250.

### 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 are allocated 70% and 30% to the Corporation and Greentree respectively, until payout of the Corporation's initial \$2.25 million capital investment.

Subsequent to payout, cash flow from operating activities will be allotted 50% to the Corporation and Greentree.

As at November 30, 2009, the Corporation has paid Greentree \$2,168,834 (August 31, 2009 - \$2,168,834) under the Farm-in Agreement. The Corporation may be obligated to fund, should the parties agree to further development of the Rodney South oilfield lease, the remaining balance of up to \$81,166 (August 31, 2009 - \$81,166) under the Farm-in Agreement. 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.

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.



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

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- To support on-going marketing efforts with, and to train all licensees on, the implementation of Powerwave and Primawave.
- Training licensees on the implementation of Powerwave and Primawave systems.
- To design and build additional Powerwave and Primawave systems to allow the Corporation to expand the applications of its technology.

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

As of January 22, 2009, there are no amounts owed in respect of the lines of credit and the Corporation had \$14,324,844 of cash on hand. Of the cash on hand, the Corporation has \$13,814,441 in Guaranteed Investment Certificates ("GIC") on deposit with TD Canada Trust, a Canadian chartered bank. The investment in the GIC is for a one year term, maturing on March 1, 2010, with a guaranteed interest rate of 0.85% but with the flexibility of an early cashing options. Credit risk on the GIC investment is linked to the insurance coverage limits as prescribed by the Canadian Deposit Insurance Corporation and that of TD Canada Trust.

### CONTRACTUAL COMMITMENTS

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

As at November 30, 2009	Payments Due by Period				
	Total	Less than 1 Year	1 – 3 Years	3 – 5 Years	More than 5 Years
Shareholder loans	\$ 39,122	39,122	-	-	-
Operating lease obligations	144,256	71,199	73,057	-	-
Greentree Gas and Oil Royalty Rights	81,166	81,166	-	-	-
	\$ 264,544	\$ 191,487	\$ 73,057	\$ -	\$ -

Management is of the opinion that its working capital position of \$14,206,007 as at November 30, 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 further expenditures related to this project in fiscal 2010. 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.



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

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### TRANSACTIONS WITH RELATED PARTIES

- i) During the reporting period, a director of the Corporation exercised 265,000 stock options at a price of \$0.45 for net proceeds to the Corporation of \$119,250.
- ii) During the reporting period 260,000 incentive stock options were issued to directors of the Corporation with an exercise price of \$0.72. The incentive stock options are set to expire September 4, 2014.
- iii) During the fiscal year ending August 31, 2006, the Corporation became the Operator of Record. As the Operator, the Corporation is initially responsible for all operating expenses and development costs, which are then charged back to each non-operating partner relative to their working interest percentage. Boulder however, as a non-operating partner, exercised its non-participation right under the Joint Operating Agreement. Under the Joint Operating Agreement, the Corporation will receive all production revenues from production wells until such time that the Corporation is repaid 200% of the costs incurred, after which, production revenues will revert back to the working interest proportions. As at November 30, 2009, amounts recorded under non-participation amounts owed totalled \$730,920 (August 31, 2009 – \$735,014). Under the Joint Operating Agreement, the Corporation will receive all production revenues from production wells associated with the costs incurred until such time that the Corporation is repaid 200% of the costs incurred, after which, production revenues will revert back to the working interest proportions.

During the comparative period ended November 30, 2008, there was a material decline in commodity prices. The Corporation recorded an impairment charge against its Rogers County oilfield property, plant and equipment and non-participation amounts by \$1,133,936 (August 31, 2008 – \$2,095,242). No additional impairment charges were recorded during the first quarter ended November 30, 2009.

### PROPOSED TRANSACTIONS

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

### OUTLOOK

Although global economic recovery is gaining traction since the darkest days of the credit crisis the pace of credit expansion in the financial markets may continue to present challenges for small to mid-tier oil companies with large funding requirements and/or short-term borrowing capacity. To reduce the Corporation's credit risk in such an environment marketing efforts of Powerwave will be limited to those producers whose production exceeds 1,000 barrels of oil per day as well as continuing to monitor client credit worthiness.

Provided global economic conditions continue on a path of recovery oil demand should start trending upward providing a backdrop for Powerwave to aid producers improve oil recovery in fields where production declines were impacted by investment. The Corporation continues to expand its sales and marketing efforts in Canada, the United States, and Mexico and has international expansion opportunities for Powerwave in numerous locals. The Corporation continues to evaluate such opportunities to establish a multi-national customer base.



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

In the United States environmental remediation sector property transaction liabilities (sites do not come to the attention of government clean-up programs until the property is being redeveloped or sold) and the revitalization of Brownfield's (contaminated abandoned industrial and commercial factories that have been rezoned for redevelopment) are large markets that continue to be significantly affected by growth-inhibiting factors; chiefly access to capital to fund such activities. As such the Corporation does not expect to see significant growth of Primawave in the United States. However, outside of the United States the Corporation anticipates the adoption of Primawave in jurisdictions including Denmark, The Netherlands, and Finland as well as continued expansion in Australia

To successfully move the Corporation towards a positive income and cash flow position for the balance of the fiscal year the Corporation will focus efforts on:

1. Implementing the current back log of Powerwave contracts. The timing of positive income and cash flow will be very much dependent upon the installation rate of existing and future Powerwave contracts, which is beyond the Corporation's control or influence;
2. Continue to manage relationships with clients along all product segments to expand product uptake and market share; and,
3. Focus on cost controls and take decisive actions where necessary to improve operating income.

### SUPPLEMENTARY INFORMATION

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

	1st Qtr Nov 30'09	4th Qtr Aug 31 '09	3rd Qtr May 31 '09	2nd Qtr Feb 28 '09
Revenue	\$ 576,327	\$ 537,776	\$ 380,066	\$ 267,804
Net Loss	\$ (1,318,487)	\$ (1,911,645)	\$ (1,763,451)	\$ (1,544,745)
Basic and diluted loss per share	\$ (0.018)	\$ (0.026)	\$ (0.025)	\$ (0.022)
Common shares outstanding				
Weighted average shares outstanding	71,946,949	71,513,398	71,513,398	71,467,488
Diluted shares outstanding	72,500,051	72,650,881	72,650,881	72,569,048



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

	1st Qtr Nov 30'08	4th Qtr Aug. 30 '08	3rd Qtr May 31 '08	2nd Qtr Feb 29 '08
Revenue	\$ 430,955	\$ 537,776	\$ 684,009	\$ 342,286
Net Loss	\$ (2,694,935)	\$ (1,911,645)	\$ (1,195,773)	\$ (1,127,539)
Basic and diluted loss per share	\$ (0.038)	\$ (0.026)	\$ (0.016)	\$ (0.021)
Common shares outstanding				
Weighted average shares outstanding	71,386,072	71,513,398	60,004,288	51,920,405
Diluted shares outstanding	71,753,117	72,650,881	60,712,744	52,772,987

(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 been 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, 2009.

### 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, 2009.

### CHANGES IN ACCOUNTING POLICIES

The changes in accounting policies and future accounting changes not yet applied are disclosed in the notes to the non-audited consolidated financial statements for the period ended November 30, 2009.

### 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.



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

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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. During the reporting period the Corporation with Deloitte & Touche LLP, substantially completed the detailed review of IFRS 1 – First Time Adoption of IFRS. Throughout the balance of the calendar year the Corporation with Deloitte & Touche LLP, plans to complete the review of all significant areas, draft mock financial statements with the objective of finalizing IFRS accounting policies and calculating IFRS differences in 2010.

Given the level of information gathering required as part of the process, during the fiscal year the Corporation worked with Deloitte & Touche LLP to identify and performed a detailed analysis of differences between Canadian generally accepted accounting principle and IFRS in the major risk areas to the Corporation's financial statements. Further the Corporation has substantially completed the detailed review of IFRS policy exemptions, drafted its IFRS accounting policy choices and assessed the impact of its policy choices. In finalizing its IFRS accounting policy choices and exceptions, it will continue to work with Deloitte & Touche LLP, and then with its auditors, PricewaterhouseCoopers LLP, to ensure agreement with the policy selection and adaptation and whether the policy choices will be applied on a retrospective or a prospective basis.

It is expected that the Corporation will finalize its analysis of differences between Canadian generally accepted accounting principle and IFRS, draft mock financial statements with the objective of finalizing its IFRS accounting policy choices and be able to perform a calculation of IFRS differences related to IFRS policy adaptation in fiscal 2010.

### **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, amounts due to shareholders, 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 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.



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

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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 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:



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

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- 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

*Certain statements contained herein regarding Wavefront and its operations constitute "forward-looking statements" within the meaning of Canadian securities laws and the United States Private Securities Litigation Reform Act of 1995. All statements that are not historical facts, including without limitation statements regarding future estimates, plans, objectives, assumptions or expectations or future performance of Wavefront and or any of its subsidiaries, as described in the Management Discussion and Analysis above, are "forward-looking statements". Statements of this type are contained in this report, including the discussion of future conditions under the headings "Overall Results from Operations" and "Liquidity and Capital Resources" and expectations under the heading "Outlook". We provide a financial outlook (a type of forward-looking statement) for Wavefront's business under the heading "Outlook" in order to describe the management expectations and targets by which Wavefront measures its success and to assist Wavefront shareholders in understanding Wavefront's financial position as at and for the periods ended on the dates presented in this report. Readers are cautioned that this information may not be appropriate for other purposes. In some cases, forward-looking statements can be identified by terminology such as "may", "will", "should", "expect", "plan", "anticipate", "believe", "estimate", "predict", "potential", "continue" or the negative of these terms or other comparable terminology. We caution that such "forward-looking statements" involve known and unknown risks and uncertainties that could cause actual results and future events to differ materially from those anticipated in such statements. Such material factors include fluctuations in the acceptance rates of Wavefront's Powerwave and Primawave Processes, 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. For a more detailed description of these risks, and of other risks to which Wavefront is subject, please see the "Risks and Uncertainties" section in our Annual Report for the year ended August 31, 2009 incorporated by reference herein. In determining Wavefront's forward-looking statements, Wavefront considers material factors including assumptions and expectations about: customer demand and adaptation rates for Wavefront's products; commodity prices and interest and foreign exchange rates; and the availability and cost of inputs, labour and services, patent, technology and competitive risk. These material risk factors and material assumptions are not intended to represent a complete list of the factors that could affect Wavefront; please see other factors that are described in further detail in Wavefront's continuous disclosure filings, from time to time, and available on SEDAR at [www.sedar.com](http://www.sedar.com).*

*The forward-looking statements contained herein represent Wavefront's expectations at January 22, 2010, and accordingly are subject to change after such date. Except as may be required by law, Wavefront does not undertake to update any forward-looking statement, whether written or verbal, that may be made from time to time.*



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

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### **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)).