

Wavefront Technology Solutions Inc.

Consolidated Financial Statements
August 31, 2010 and 2009

December 21, 2010

Auditors' Report

To the Shareholders of Wavefront Technology Solutions Inc.

We have audited the consolidated balance sheets of **Wavefront Technology Solutions Inc.** as at August 31, 2010 and 2009 and the consolidated statements of loss, comprehensive loss and deficit and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at August 31, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(Signed) "PricewaterhouseCoopers LLP"

Chartered Accountants

Wavefront Technology Solutions Inc.

Consolidated Balance Sheets

As at August 31, 2010 and 2009

	2010 \$	2009 \$
Assets		
Current assets		
Cash and cash equivalents	29,442,956	15,336,137
Accounts receivable	865,092	535,869
Prepaid expenses	83,701	145,567
Inventory	99,969	62,339
	<u>30,491,718</u>	<u>16,079,912</u>
Deposits	103,573	65,735
Property, plant and equipment (notes 6 and 7)	4,903,660	5,197,970
Intangible assets (notes 7 and 8)	451,314	1,981,873
Goodwill (notes 5 and 9)	1,222,217	1,152,110
	<u>37,172,482</u>	<u>24,477,600</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	1,173,495	610,224
Current portion of amounts due to shareholders (note 10)	-	75,470
	<u>1,173,495</u>	<u>685,694</u>
Asset retirement obligation (note 11)	316,022	187,348
	<u>1,489,517</u>	<u>873,042</u>
Shareholders' Equity		
Share capital (note 14)	66,288,967	49,721,045
Contributed surplus (note 14)	7,477,519	3,328,245
Deficit	(38,083,521)	(29,444,732)
	<u>35,682,965</u>	<u>23,604,558</u>
	<u>37,172,482</u>	<u>24,477,600</u>

Approved by the Board of Directors

"Steve Percy" (signed) Director

"Dennis Minano" (signed) Director

Wavefront Technology Solutions Inc.

Consolidated Statements of Loss, Comprehensive Loss and Deficit For the years ended August 31, 2010 and 2009

	2010 \$	2009 \$
Revenue		
Service revenue and royalties	2,209,421	1,138,151
Production revenue and operator fees, net of taxes and royalties	188,274	177,821
Interest and other	120,231	300,629
	<u>2,517,926</u>	<u>1,616,601</u>
Expenses		
General and administrative expenses	4,459,397	4,135,601
Write-down of oilfield property, plant and equipment, and non-participation amounts (note 7)	1,925,937	1,133,936
Direct costs	1,202,068	437,865
Selling, marketing and travel	1,069,728	863,576
Amortization, depreciation, depletion and accretion expenses	910,415	738,867
Research and development	909,800	692,945
Stock-based compensation	405,983	749,273
Listing and public company fees	216,190	119,805
Loss on disposal of property, plant and equipment	57,146	17,322
Interest expense	2,990	15,045
Foreign exchange gain	(2,939)	(158,233)
Write-down of intangible assets (notes 7 and 8)	-	555,212
Write-down of goodwill (note 9)	-	247,605
	<u>11,156,715</u>	<u>9,548,819</u>
Net loss and comprehensive loss for the year	(8,638,789)	(7,932,218)
Deficit – Beginning of year	(29,444,732)	(21,512,514)
Deficit – End of year	(38,083,521)	(29,444,732)
Loss per common share (note 15)		
Basic and diluted	<u>(0.11)</u>	<u>(0.11)</u>

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Consolidated Statements of Cash Flows

For the years ended August 31, 2010 and 2009

	2010 \$	2009 \$
Cash provided from (used in)		
Operating activities		
Net loss for the year	(8,638,789)	(7,932,218)
Items not affecting cash		
Write-down of oilfield property, plant and equipment, and non-participation amounts (note 7)	1,925,937	1,133,936
Amortization, depreciation, depletion and accretion expenses	910,415	738,867
Stock-based compensation (note 14)	405,983	749,273
Loss on disposal of property, plant and equipment	57,146	17,322
Write-down of intangible assets (notes 7 and 8)	-	555,212
Write-down of goodwill (note 9)	-	247,605
	<u>(5,339,308)</u>	<u>(4,490,003)</u>
Net change in non-cash working capital items (note 16)	<u>220,445</u>	<u>(284,746)</u>
	<u>(5,118,863)</u>	<u>(4,774,749)</u>
Financing activities		
Proceeds from private placement (net of share issuance costs)	20,023,166	-
Proceeds from options exercised	288,047	337,400
Repayment of amounts due to shareholders (note 10)	(75,470)	(137,984)
Repayment of long-term debt	-	(111,807)
Repayment of obligations under capital leases	-	(2,867)
	<u>20,235,743</u>	<u>84,742</u>
Investing activities		
Purchase of property, plant and equipment	(864,510)	(1,801,342)
Intangible costs	(82,771)	(97,429)
Business acquisition (note 5)	(70,107)	(550,676)
Proceeds on disposal of property, plant and equipment	7,327	39,872
	<u>(1,010,061)</u>	<u>(2,409,575)</u>
Increase (decrease) in cash and cash equivalents	14,106,819	(7,099,582)
Cash and cash equivalents – Beginning of year	15,336,137	22,435,719
Cash and cash equivalents – End of year	29,442,956	15,336,137
Supplementary information		
Interest paid	<u>3,915</u>	<u>18,610</u>

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Notes to Consolidated Financial Statements

August 31, 2010 and 2009

1 Description of business

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

2 Accounting policies

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and include the accounts of the Corporation and its wholly owned subsidiaries and its proportionate share of assets, liabilities, revenues, expenses and cash flows of the mineral property working interests in which it participates (notes 6 and 7). All inter-company balances and transactions have been eliminated. These consolidated financial statements include the following significant accounting policies:

a) Use of estimates and measurement uncertainty

The preparation of financial statements, in conformity with Canadian GAAP, requires Management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Significant estimates include: valuation and impairment amounts of property, plant and equipment and goodwill; the allowance for doubtful accounts; determination of percentage of completion for the purposes of revenue recognition and direct costs, and stock option valuation. Actual results could differ from those estimates.

The amounts recorded for the provision of the asset retirement obligations and the amounts used for the impairment test calculation are based on estimates of abandonment costs, reserves, future commodity prices, royalties, cash flows estimates, operating costs, development costs, all of which are inherently uncertain. By their nature, these estimates are subject to measurement uncertainty and the effect of changes in such estimates on the financial statement for current and future periods could be material.

b) Cash and cash equivalents

Cash and cash equivalents are comprised of cash on deposit, net of cheques issued in excess of cash on deposit; and, balances held in short-term, highly liquid, Guaranteed Investment Certificates and Term Deposits with annualized interest rates of 0.65% and 0.55% respectively. The Corporation maintains revolving operating lines of credit that are included in cash and cash equivalents, as they fluctuate regularly between being overdrawn and positive.

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c) Translation of foreign currencies

Transactions in foreign currencies are translated into Canadian dollars at rates of exchange at the time of such transactions. Foreign operations are considered financially and operationally integrated and are translated into Canadian dollars using the temporal method of translation. Accordingly, monetary assets and liabilities are translated at current rates of exchange. Non-monetary assets and liabilities are translated at historical exchange rates. Revenue and expenses denominated in a foreign currency are translated at the monthly average exchange rate (except for amortization which is translated at historical exchange rates). Gains and losses resulting from the translation adjustments are included in income.

d) Revenue recognition

Revenue is recognized when persuasive evidence of an arrangement exists, products or services have been delivered to and accepted by third party customers, the price to the buyer is fixed or determinable and collection is reasonably assured. Specific revenue recognition policies are as follows:

- i) Revenue from oilfield services is recognized when the underlying services are provided. Revenue from the rental of tubing pumps and bailers is recognized when the equipment is delivered and accepted by third party customers.
- ii) Licensing royalties and technology fees are recognized on a percentage of completion basis as the underlying contracts are for a set time period. Percentage of completion is determined by relating the amount of time a system has been operating to the total contracted amount of time the system will be operating. Any projected loss is recognized immediately.
- iii) Revenue associated with the production and sale of crude oil owned by the Corporation is recognized in the same period as when the title passes to the external party.

e) Warranty expense

Under certain service contracts a provision for potential warranty expenses is provided for at the time of sale, based on warranty terms and prior claims experience.

f) Property, plant and equipment

Property, plant and equipment are recorded at cost less accumulated depreciation. Depreciation is provided over the useful life of the asset. Depreciation has been calculated using the following annual rates and methods:

Oilfield property, plant and equipment	Units of production
Equipment	20% declining balance
Computer equipment	30% declining balance
Computer software	100% declining balance
Automotive equipment	30% declining balance
Office furniture and fixtures	20% declining balance

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The Corporation evaluates the carrying value of property, plant and equipment whenever events or changes in circumstances indicate that the carrying value may not be recoverable, and recognizes an impairment charge when it is probable that estimated future non-discounted cash flows of the underlying assets will be less than the carrying value of the assets. Where there is impairment, the Corporation measures the loss as the amount by which the carrying amount exceeds fair value.

g) Oilfield property, plant and equipment

The Corporation follows the full-cost method of accounting for its oil and gas property operations as determined by the Canadian Institute of Chartered Accountants (“CICA”), Accounting Guideline 16. Under this method, all costs associated with the acquisition of, the exploration for and the development of oil and gas reserves are capitalized. Costs include lease acquisition costs, geological and geophysical expenses, costs of drilling both producing and non-producing wells, production facilities and asset retirement costs. Proceeds from the sale of properties are applied against capitalized costs, without any gain or loss being realized, unless such sale would alter the rate of depletion or depreciation by more than 20%.

Depletion of oil and gas properties, plant and production equipment is provided using the unit-of-production method based upon estimated proved oil and gas reserves as determined by management and independent engineers. The cost of significant undeveloped properties are excluded from costs subject to depletion until it is determined whether or not proved reserves are attributable to the properties or impairment has occurred. Estimated future costs to be incurred in developing proved reserves are included in costs subject to depletion.

The Corporation’s policy is to apply an impairment test (“ceiling test”) to determine if capitalized costs are not recoverable and are greater than the fair value. Capitalized costs are not recoverable if they exceed estimated undiscounted cash flows from future production of proved reserves. Cash inflows and costs are estimated using reserves data determined by independent engineers. Costs are based on expected future production and other costs and include abandonment and site restoration costs. An impairment loss is measured as the amount by which capitalized costs exceed fair value of proved reserves. Any calculated impairment loss, and the resulting carrying values, may not be indicative of the actual values.

h) Asset retirement obligations

The Corporation recognizes the fair value of estimated asset retirement obligations on the consolidated balance sheet when a reasonable estimate of fair value can be made. Asset retirement obligations include those for which a company faces a legal obligation to retire tangible long-lived assets such as well sites, pipeline and facilities. Increases in the asset retirement obligations resulting from the passage of time are recorded as accretion to the asset retirement obligations in the consolidated statement of loss and deficit. Actual expenditures incurred are charged against the accumulated obligations.

The asset retirement cost, equal to the estimated fair value of the retirement obligations, is capitalized as part of the cost of the related long-lived assets. Asset retirement costs are amortized using the same methods as the underlying asset.

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i) Goodwill

Goodwill represents the excess of the purchase price of a business acquisition over the fair value of the underlying net assets at the date of acquisition. Goodwill arising from the acquisition is not amortized and is tested for impairment annually, or more frequently if events or changes in circumstances indicate the net asset might be impaired. Impairment is tested by comparing the carrying amount of the reporting unit, including goodwill, with its fair value. Fair value is determined using the discounted, estimated future operating cash flows of the reporting unit. When the fair value of the reporting unit exceeds its carrying value, goodwill of the reporting unit is not considered to be impaired. When the carrying value of the reporting unit exceeds its fair value, the implied fair value of the reporting unit's goodwill, determined in the same manner as the value of goodwill is determined in a business acquisition, is compared with its carrying amount to measure the amount of the impairment loss, if any.

j) Intangible assets

Intangible assets acquired individually or as part of a group of other assets are initially recognized at and measured at cost. Amortization is provided over the useful lives of the assets. Amortization has been calculated using the following annual rates and methods:

Fully-paid up license	Straight-line basis over 15 years
Patents	Straight-line basis over 10 years

The Corporation regularly evaluates the net carrying value of finite life intangible assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Any impairment in the carrying value is charged to expense in the year that the impairment has been determined.

k) Inventory

Inventories, which consist primarily of pump and valve assemblies, tubing, packer cups, balls, collar guards, pressure fittings, accumulators and feed through subs, are valued at the lower of cost, determined on a first-in, first-out basis, and net realizable value.

l) Research and development costs

Research costs are expensed as incurred and significant development costs are capitalized once the Corporation has determined that commercialization criteria concerning the product or process have been met. Amortization of these costs is over their estimated useful lives commencing with the successful commercial production or use of the product or process. On an on-going basis, management reviews the unamortized balance to ensure that the deferred development costs continue to satisfy the criteria for deferral and amortization.

m) Income taxes

Income taxes are accounted for using the liability method of income tax allocation. Under the liability method, income tax assets and liabilities are recorded to recognize future income tax inflows and outflows arising from the settlement or recovery of assets and liabilities at their carrying values.

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Income tax assets are also recognized for the benefits from tax losses, provided those benefits are more likely than not to be realized. Future income tax assets and liabilities are determined based on the tax laws and rates that are anticipated to apply in the period of realization.

n) Investment tax credits

Investment tax credits are earned on scientific research and development expenditures. Investment tax credits related to current expenses are included in the determination of net income. Investment tax credits related to the acquisition of assets are deducted from the related assets with any amortization calculated on the net amount. Investment tax credits are accrued when the Corporation has made the qualifying expenditures provided there is reasonable assurance that the credits will be realized.

o) Stock-based compensation plan

The Corporation has a stock-based compensation plan, which is described in Note 14. The fair value of the common share purchase option is calculated at the date of grant and is expensed over the vesting period of those options. The Corporation uses the Black-Scholes model to calculate the fair value of stock options issued, which requires certain assumptions be made at the time the stock options are awarded, including the expected life of the stock option, the expected number of granted options that will vest and the expected future volatility of the stock.

Any consideration paid by stock option or warrant holders for the purchase of stock together with any amount previously recognized in contributed surplus are credited to share capital. If plan entitlements are repurchased from the holder, the consideration paid is charged to retained earnings.

p) Loss per share

Basic loss per share is calculated using the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated on the basis of the weighted average number of common shares outstanding during the period plus the additional common shares that would have been outstanding if potentially dilutive common shares had been issued using the treasury stock method.

q) Financial instruments

Financial assets and financial liabilities

Financial assets and financial liabilities are initially recognized at fair value and are subsequently accounted for based on their classification as described below. The classification depends on the purpose for which the financial instruments were acquired and their characteristics.

Held-for-trading

Financial assets and financial liabilities that are purchased and incurred with the intention of generating profits in the near term are classified as held-for-trading. An entity may also designate any financial instrument upon initial recognition as held-for-trading. These instruments are measured at fair value with changes in fair value recognized on the statement of operations.

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Available-for-sale

Financial assets, classified as available-for-sale will be measured at fair value with changes in fair value recorded in other comprehensive income. The fair value of a financial instrument on initial recognition is normally the transaction price. Subsequent to initial recognition, fair values for financial assets are determined by bid prices quoted in active markets. Securities that are classified as available-for-sale and do not have a readily available market value are recorded at cost. Available-for-sale securities are written down to fair value through other comprehensive income whenever it is necessary to reflect other-than-temporary impairment. Gains and losses realized on disposal of available-for-sale securities, which are calculated on an average cost basis, are recognized in other income (expenses).

Held-to-maturity

Securities that have a fixed maturity date, where the Corporation intends and has the ability to hold to maturity, are classified as held-to-maturity and measured at amortized cost using the effective interest rate method.

Loans, receivables and other financial liabilities

Loans, receivables and other financial liabilities are measured at amortized cost using the effective interest rate method.

The Corporation has made the following classifications:

	Classification	Measurement
<hr/>		
<u>Financial assets</u>		
Cash and cash equivalents	Held-for-trading	Fair value
Accounts receivable	Loans, receivables and other financial liabilities	Amortized cost
<u>Financial liabilities</u>		
Accounts payable and accrued liabilities	Loans, receivables and other financial liabilities	Amortized cost
Due to shareholders	Loans, receivables and other financial liabilities	Amortized cost

3 Changes in Accounting Policies

Goodwill and Intangible Assets

Effective September 1, 2009, the Corporation adopted the revised CICA Handbook Section 3064 “Goodwill and Intangible Assets”, which replaces the existing standard for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2008. The revised standard addresses the requirement for recognition, measurement, presentation and disclosure of goodwill and intangible assets. The revised standard did not have a material effect on the Corporation’s financial position or results of operations.

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Financial Instruments

The CICA amended Handbook Section 3862 “Financial Instruments – Disclosures” in June 2009. The revised section includes additional disclosure requirements about fair value measurements of financial instruments and to enhance liquidity risk disclosure requirements. The amendments apply to annual financial statements with fiscal years ending after September 30, 2009. The adoption of these amendments did not have a material affect on the Corporation’s financial statements.

4 Future Accounting Changes

Business Combinations

The CICA issued CICA Handbook Section 1582 “Business Combinations”, Section 1601 “Consolidated Financial Statements”, and Section 1602 “Non-Controlling Interests”, which superseded Sections 1581 “Business Combinations”, and Section 1600 “Consolidated Financial Statements”.

Section 1582 establishes standards for the accounting for a business combination. This Section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011.

Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. Both sections apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011.

Earlier adoption is permitted as of the beginning of a fiscal year. All three sections must be adopted concurrently.

Comprehensive Revaluation of Assets and Liabilities

The CICA amended Handbook Section 1625 “Comprehensive Revaluation of Assets and Liabilities” as a result of issuing Section 1582 “Business Combinations”, Section 1601 “Consolidated Financial Statements”, and Section 1602 “Non-Controlling Interests” in January 2009. The amendments apply prospectively to comprehensive revaluation of assets and liabilities occurring in fiscal years beginning on or after January 1, 2011. Earlier adoption is permitted provided that section 1582 is also adopted. The Corporation is currently evaluating the impact of the amendments to the standard in conjunction with our evaluations of the changes in Business Combinations.

5 Business acquisition

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

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the closing date. During the fiscal year contingent consideration of \$70,107 was paid in cash, and was recorded as an incremental cost of the Purchase Price and added to goodwill.

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

	\$
Current assets	55,676
Non-current assets	<u>213,490</u>
Total assets acquired	<u>269,166</u>
Current liabilities	84,437
Long-term debt	<u>44,906</u>
Total liabilities assumed	<u>129,343</u>
Net assets acquired	139,823
Goodwill	<u>480,960</u>
Purchase price	<u>620,783</u>

6 Property, plant and equipment

	2010		
	Cost	Accumulated depreciation	Net
	\$	\$	\$
Oilfield property, plant and equipment (notes 7 and 8)	1,114,874	238,000	876,874
Equipment	5,343,873	1,497,356	3,846,517
Computer equipment	240,051	188,919	51,132
Computer software	349,091	333,504	15,587
Automotive equipment	112,530	37,219	75,311
Office furniture and fixtures	108,460	70,221	38,239
	<u>7,268,879</u>	<u>2,365,219</u>	<u>4,903,660</u>

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Notes to Consolidated Financial Statements

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	2009		
	Cost	Accumulated depreciation	Net
	\$	\$	\$
Oilfield property, plant and equipment (note 7)	560,390	47,384	513,006
Non-participation amounts (note 7)	772,914	37,900	735,014
Equipment	4,568,763	859,742	3,709,021
Computer equipment	233,151	165,825	67,326
Computer software	330,119	310,674	19,445
Automotive equipment	114,658	18,425	96,233
Office furniture and fixtures	122,314	64,389	57,925
	<u>6,702,309</u>	<u>1,504,339</u>	<u>5,197,970</u>

Assets under construction totaling \$725,426 (2009 – \$1,130,601) is included in equipment, which is not being depreciated.

Depreciation expense for the year ended August 31, 2010 was \$811,771 (2009 – \$595,557).

7 Oilfield property, plant and equipment

Rogers County

During 2005, the Corporation entered into an Option Agreement (the “Option Agreement”) to acquire ninety percent (90%) of the working interest in the production, equipment and mineral leases of Phoenix Oil, LLC (“Phoenix”) of Claremore, Oklahoma, for total consideration of \$221,400. The leases, known as the Chelsea-Alluwe Waterflood Leases, are comprised of 780 acres and are situated in Rogers County, Oklahoma. For the Option Agreement, the Corporation paid a deposit of \$18,450 that was applied to the total purchase price. A limited liability company, Boulder Oil, LLC (“Boulder”) executed the Option Agreement on behalf of the Corporation by paying the remaining \$202,950 of the purchase price for a sixty percent (60%) working interest in the leases. In consideration for the \$18,450 deposit paid, the Corporation retained a thirty percent (30%) working interest in the leases. During 2006, the Corporation then acquired the ten percent (10%) working interest in the Rogers County venture from Phoenix in exchange for \$214,352 owed, bringing the Corporations total working interest to forty (40%) percent. Each working interest party is responsible for operating and field development costs in proportions relative to their working interest percentage.

Included in oilfield property, plant and equipment was the Corporation’s proportionate share of oil well development costs. During the fiscal year ended August 31, 2006, the Corporation became the operator of record, and Boulder, as a non-operating partner, exercised its non-participation right in the Joint Operating Agreement. 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.

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As described in Note 2 (g), the Corporation reviews on an annual basis 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 a full impairment of its Rogers County property, plant and equipment and non-participation amounting to \$1,085,597 (2009 - \$1,133,936). The impairment loss was determined based on estimated present value of future cash flows calculated using internal production estimates and NYMEX future's prices per barrel of oil. The impairment loss is reflected in the oil and gas properties reporting segment and the US geographic reporting segment affecting net loss for the year, segment assets and total assets (Note 18). The calculated amounts to be written-down, and the resulting carrying value of the Rogers County assets, may not be indicative of the actual values.

The Corporation has recognized production revenue of \$99,839 (2009 – \$105,344) related to the Rogers County venture.

Rodney South

On June 1, 2010, but effective April 30, 2010, the Corporation entered into a Quit Claim and Conveyance Agreement with Greentree Gas & Oil Ltd. ("Greentree"), where by the Corporation forgave all amounts owing to the Corporation by Greentree in respect of the Royalty Interest (Note 8) for the period prior to April 30, 2010. In consideration of the amounts forgiven, the Corporation received a 50% interest in the legal and beneficial rights and title in certain assets. The transferred assets are limited to the specific oil and injection wells in Rodney South covered by the Farm-in Agreement and the associated resource production from those wells. Under the new arrangement, Greentree will continue to act as the Operator of the lease, provide its field maintenance staff, support and administrative staff.

As a result of the Quit Claim and Conveyance Agreement the Corporation derecognizing the Royalty rights, an intangible asset, (Note 8) and recorded the transferred assets as oilfield property, plant and equipment. The transaction was a non-monetary transaction and no gain or loss was recorded.

As described in Note 2 (g), the Corporation reviewed the carrying amount of the transferred assets and as a result of the review, a detailed impairment calculation was completed. The Corporation recorded a write-down of its Rodney South oilfield property, plant and equipment of \$622,835. The write-down was determined based on estimated present value of future cash flows calculated using Greentree's independent reserve's report estimates and NYMEX future's prices per barrel of oil. The write-down is reflected in the oil and gas properties reporting segment and the Canadian geographic reporting segment affecting net loss for the year, segment assets and total assets (Note 18). The calculated amounts that were written-down, and the resulting carrying value, may not be indicative of the actual values.

Young County

During the year ended August 31, 2007, the Corporation acquired one hundred (100%) percent of the working interest in certain mineral leases in Young County, Texas for total consideration of \$175,657. The mineral leases expired during May 2010. As the Corporation did not renegotiate further terms nor enter into any subsequent agreement, the full carrying value of \$175,657 was written down. The write-down is reflected in the oil and gas properties reporting segment and the US geographic reporting segment affecting net loss for the year, segment assets and total assets (Note 18).

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Taylor County

During the year ended August 31, 2008, the Corporation acquired fifty (50%) percent working interest in certain mineral leases in Taylor County, Texas for total consideration of \$41,848. The working interest expired during May 2010. As the Corporation did not renegotiate further terms nor enter into any subsequent agreement, the full carrying value of \$41,848 was written down. The write-down is reflected in the oil and gas properties reporting segment and the US geographic reporting segment affecting net loss for the year, segment assets and total assets (Note 18).

8 Intangible assets

	2010		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Fully-paid up license	106,990	27,776	79,214
Patents	520,291	148,191	372,100
	627,281	175,967	451,314
	2009		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Royalty rights (notes 6 and 7)	1,719,872	148,051	1,571,821
Fully-paid up license	106,990	22,214	84,776
Patents	437,515	112,239	325,276
	2,264,377	282,504	1,981,873

Amortization expense for the year ended August 31, 2010 totalled \$98,644 (2009 – \$130,269).

Greentree Gas and Oil Ltd. royalty rights

On August 31, 2006, 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 was to supply its Powerwave technology and fund up to \$2.25 million for initial capital expenditures and working capital requirements. Greentree was also to act as the Operator of the lease and will contribute the petroleum leases, existing seismic and geological data, and the use of its existing field facilities. Greentree was also to provide its field maintenance staff, support and administrative staff. In consideration for each party’s contributions, net cash flows from operating activities were to be allocated 70% and 30% to the Corporation and Greentree,

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respectively, until payout of the Corporation's initial \$2.25 million capital investment. Subsequent to payout, cash flow from operating activities will be allotted 50% to the Corporation and Greentree respectively.

As described in Note 7, the Corporation entered into the Quit Claim and Conveyance Agreement with Greentree. The Corporation derecognized the Royalty right, an intangible asset, and recorded the transferred assets as oilfield property, plant and equipment.

9 Goodwill

	2010	2009
	\$	\$
Balance, beginning of year	1,152,110	988,862
Additions (note 5)	70,107	410,853
Impairment charges	-	(247,605)
	<hr/>	<hr/>
Balance, end of year	1,222,217	1,152,110

The goodwill impairment test completed as at August 31, 2010 did not indicate that a provision for additional impairment losses was necessary. During fiscal 2009, the Corporation completed its annual goodwill impairment test, which resulted in a goodwill impairment of \$247,605. Several factors led to the impairment including the slowdown in the economy and worsening overall market conditions, in particular oil and gas activities, and a reduction in capital spending in the oil and gas sector which impacts the amount of future work/projects awarded to the Corporation. The calculated amounts to be written-down, and the resulting carrying value of the goodwill, may not be indicative of the actual values.

10 Due to shareholders

In connection with a business acquisition completed in a prior year, the shareholders of the acquired company agreed to enter into debt repayment agreements. Under the terms of the debt repayment agreements, the amounts due to shareholders were unsecured, and were repayable in equal quarterly installments over three years.

11 Asset retirement obligation

The Corporation has asset retirement obligations associated with its oilfield property, plant and equipment (Note 7). These asset retirement obligations primarily relate to the plugging of wells and abandonment costs.

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

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	2010	2009
	\$	\$
Asset retirement obligations – Beginning of year	187,348	174,562
Liabilities incurred	9,521	-
Changes in estimated future cash flow	108,080	(1,865)
Accretion expense	14,364	13,041
Foreign currency	(3,291)	1,610
	<hr/>	<hr/>
Asset retirement obligations – End of year	316,022	187,348

Rogers County

The total undiscounted amount of estimated cash flows required to settle the obligation related to Rogers County is \$333,722 (2009 – \$383,453), which has been discounted using credit-adjusted risk free rate of 9.49%. The majority of these obligations are not expected to be settled for one to two years in the future and will be funded from general corporate resources at the time of the retirement and removal.

Rodney South

The total undiscounted amount of estimated cash flows required to settle the obligation related to Rodney South is \$61,812 (2009 – \$nil), which has been discounted using credit-adjusted risk free rate of 9.49%. The majority of these obligations are not expected to be settled for one to twenty-nine years in the future and will be funded from general corporate resources at the time of the retirement and removal.

12 Income taxes

Future income taxes reflect the net tax affects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The Corporation has recognized a valuation allowance for those future tax assets for which it is more likely than not that realization will not occur.

Significant components of the Corporation's future tax assets and liabilities as of August 31, 2010 are as follows:

	2010	2009
	\$	\$
Future income tax assets		
Non-capital losses carried forward	3,863,443	3,057,426
Net operating losses carried forward	2,499,384	2,005,130
Interest expense not tax-deductible until future years	727,470	501,047
Research and development expenditures	281,432	174,715
Property, plant and equipment and intangible assets	765,672	1,061,178
Financing costs	488,307	199,214

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Non deductible liabilities	223,422	-
Non-participation amounts	961,833	-
Unrealized foreign exchange capital losses	50,500	50,748
	9,861,463	7,049,458
Future income tax liabilities		
Property, plant and equipment and intangible assets	-	-
	9,861,463	7,049,458
Less: Valuation allowance	(9,861,463)	(7,049,458)
Net future income tax asset	-	-

As at August 31, 2010, the Corporation has scientific research and experimental development expenditures in the amount of \$1,126,390 (2009 – \$444,926) available for carry-forward to reduce future taxable income.

The Corporation and its subsidiaries also have, in aggregate, Canadian non-capital losses in the amount of \$15,462,839 and U.S. net operating losses of \$6,165,306 (\$USD) to be carried forward and used to reduce income for tax purposes in future years, subject to confirmation by taxation authorities. The potential income tax benefits associated with these losses and expenditures have not been reflected in the consolidated financial statements as they have been fully offset by a valuation allowance. These losses expire as follows:

	U.S. \$	Canadian \$
2014	-	1,823,383
2015	-	1,112,562
2024	669	-
2025	180,377	-
2026	327,314	1,792,581
2027	1,381,892	1,208,478
2028	1,493,262	2,044,673
2029	1,485,648	2,911,038
2030	1,296,144	4,570,124
	6,165,306	15,462,839

The Corporation's substantially enacted Canadian statutory tax rate is approximately 28.07% (2009 – 29.11%). The difference between the computed expected income tax recovery and the actual income tax recovery are summarized as follows:

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	2010 \$	2009 \$
Loss before income tax	<u>(8,638,789)</u>	<u>(7,932,218)</u>
Expected income tax recovery at statutory income tax rate	(2,425,172)	(2,309,069)
Adjusted for the following:		
Difference between U.S. and Canadian tax rates on U.S. losses	(164,469)	(177,432)
Stock-based compensation	113,972	218,113
Write down of goodwill	-	72,078
Unrealized foreign exchange capital loss	-	54,579
Substantively enacted rates	(219,291)	95,434
Expiry of non-capital losses	144,686	416,899
Financing costs	(532,769)	-
Valuation allowance	2,812,005	1,758,828
Non-deductible and other items	<u>271,038</u>	<u>(129,430)</u>
	<u>-</u>	<u>-</u>

13 Commitments

The Corporation is committed under various operating leases for office and warehouse space. The minimum amounts payable over the next two years are as follows:

	\$
2010	159,451
2011	<u>165,783</u>
	<u>325,234</u>

14 Share capital

The Corporation's authorized and issued share capital for the year ended August 31, 2010 and 2009 are as follows:

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Authorized

Unlimited common shares without par value

Issued common shares

	2010		2009	
	Number #	Stated capital \$	Number #	Stated capital \$
Balance – Beginning of year	71,759,808	49,721,045	71,064,808	49,319,704
Shares issued in private placement ⁽¹⁾	10,438,170	16,110,953	-	-
Stock options exercised ⁽²⁾	616,766	456,969	695,000	401,341
Balance – End of year	82,814,744	66,288,967	71,759,808	49,721,045

- (1) Effective April 26, 2010, the Corporation issued 10,438,170 units at a price of \$2.10 per unit for gross proceeds of \$21,920,157. The 10,438,170 units were issued by way of a brokered private placement. Each unit consisted of one common share and ½ of one non-transferable share purchase warrant. Each whole warrant (the “Warrant”) entitles the holder to purchase an additional common share at a price of \$2.75 per share for twelve months expiring on April 27, 2011, subject to an accelerated expiry date; commencing on August 27, 2010. The Corporation valued the Warrants at \$3,912,213 using the Black-Scholes option pricing model as discussed below. The Corporation also paid filing fees, finders’ fees, legal and agent expenses of \$1,896,991, resulting in net cash proceeds of \$20,023,166.
- (2) The 616,766 incentive stock options exercised during the year ended August 31, 2010, were at a prices ranging from \$0.40 to \$0.97 for gross proceeds of \$288,047. The 695,000 incentive stock options exercised during the year ended August 31, 2009, were at a prices ranging from \$0.44 to \$0.55 for gross proceeds of \$337,400.

Warrants

A summary of the status of the Corporation Share Purchase Warrants as at August 31 2010 and 2009, and the changes during the years ended on those dates is presented below:

	2010		2009	
	Number #	Exercise price \$	Number #	Exercise price \$
Outstanding – Beginning of year	-	-	-	-
Granted ⁽¹⁾	5,219,085	2.75	-	-
Outstanding – End of year	5,219,085	2.75	-	-

- (1) In connection with the brokered private placement that closed on April 26, 2010, noted above, the Corporation issued 5,219,085 non-transferable share purchase warrants. Each whole Warrant entitles the holder to purchase an additional common share at a price of \$2.75 per share for twelve months expiring on April 27, 2011, subject to an accelerated expiry date, commencing on August 27, 2010, if the volume weighted average trading price of the Corporation’s Shares on the TSX Venture Exchange, or any other stock exchange on which the Shares are then listed, is at a price equal to or greater

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than \$3.15 for a period of more than 20 consecutive trading days, the Corporation will have the right to accelerate the expiry date of the Warrants by giving written notice to the holders of the Warrants that the Warrants will expire on the date that is not less than 30 days from the date notice is provided by the Corporation to the holder of the Warrant.

Stock-based compensation plan

The Corporation maintains an Employee, Director, Officer and Consultant Stock Option Plan under which the Corporation may grant incentive stock options for up to 10,771,583 shares of the Corporation at an exercise price equal to or greater than the market price of the Corporation's stock at the date of grant. All stock options awarded are exercisable for a period of five years and vest in equal tranches at three (3) month intervals over a period of eighteen (18) months.

A summary of the status of the Corporation's Stock Option Plan as at August 31, 2010 and 2009, and the changes during the years ended on those dates are presented below:

Stock options	2010		2009	
	Number #	Weighted average exercise price \$	Number #	Weighted average exercise price \$
Outstanding – Beginning of year	3,108,970	1.56	3,015,170	1.60
Granted	430,000	1.01	878,800	0.56
Exercised	(616,766)	0.47	(695,000)	0.49
Cancelled	(76,284)	0.75	(40,000)	1.94
Expired	-	-	(50,000)	0.50
Outstanding – End of year	2,845,920	1.74	3,108,970	1.56

Exercise price \$	Options outstanding		Options exercisable	
	Number outstanding #	Weighted average remaining contractual life in years	Number outstanding #	Weighted average remaining contractual life in years
2.95	725,000	0.4	725,000	0.4
2.90	135,000	2.8	135,000	2.8
2.57	200,000	0.7	200,000	0.7
2.05	200,000	2.5	200,000	2.5
1.76	100,000	0.9	100,000	0.9
1.65	210,000	2.5	210,000	2.5
1.45	170,000	4.9	-	-

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1.40	50,000	2.5	50,000	2.5
0.97	86,670	1.5	86,670	1.5
0.72	252,500	4.0	122,499	4.0
0.60	26,250	3.4	26,250	3.4
0.59	90,500	3.9	58,816	3.9
0.54	600,000	3.4	600,000	3.4
	2,845,920	2.3	2,514,235	2.0

- a) Effective September 4, 2009, the Corporation issued 260,000 incentive stock options to directors of the Corporation with an exercise price of \$0.72. The stock options are subject to the Stock Option Plan, and expire on September 4, 2014.
- b) Effective July 14, 2010, the Corporation issued 170,000 incentive stock options to directors and employees of the Corporation with an exercise price of \$1.45. The stock options are subject to the Stock Option Plan, and expire on July 14, 2015. Of the 170,000 stock options issued, 75,000 were issued to a director of the Corporation.

The fair value for the compensation costs of stock options issued to both employees and non-employees were calculated using the Black-Scholes option pricing model resulting in an additional charge to wage and to consultant expense with a corresponding increase in contributed surplus. Compensation costs are estimated at the grant date using the following assumptions and the Corporation's estimate of those number of options expected to vest. The Corporation uses the Stock Option Plan's historical forfeiture rate at the date of grant as its estimate of the number of stock options expected to vest.

	2010	2009
Dividend yield	-	-
Risk-free rate	2.54% to 2.61%	1.86% to 2.39%
Average life	5 years	5 years
Volatility rate	112.65% to 122.09%	122.09% to 124.04%
	\$	\$
Weighted fair value of options granted during the year	0.83	0.47

During the year ended August 31, 2010, the Corporation incurred \$405,983 (2009 – \$749,273) in compensation expense relating to outstanding stock options.

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

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Contributed surplus

	2010	2009
	\$	\$
Balance – Beginning of year	3,328,245	2,642,913
Stock based compensation	405,983	749,273
Warrant issuance	3,912,213	-
Stock options exercised	(168,922)	(63,941)
Warrants exercised	-	-
	<hr/>	<hr/>
Balance – End of year	<u>7,477,519</u>	<u>3,328,245</u>

Escrow shares

In connection with a business acquisition completed in a prior year 600,000 common shares were issued as part of the consideration. At August 31, 2010, 180,000 common shares remain held in escrow (2009 – 360,000).

15 Loss per share

The Corporation uses the treasury stock method to calculate diluted earnings per share. Under the treasury stock method, the numerator remains unchanged from the basic earnings per share calculation, as the assumed exercise of the Corporation's share purchase warrants and stock options do not result in an adjustment to income. The weighted average number of common shares outstanding is 75,770,126 (2009 – 71,575,507).

Diluted loss per share is computed by giving effect to the potential dilution that would occur if the Corporation's share purchase warrants or stock options were exercised. The treasury stock method assumes that the proceeds received from the exercise of the "in-the-money" share purchase warrants or stock options are used to repurchase common shares at the average market price for the year ended August 31, 2010.

In determining diluted loss per share, the weighted average number of shares outstanding was increased by 363,441 (2009 – 1,265,565) for stock options eligible for exercise where the average market price of the common shares for the year exceeds the exercise price. The diluted weighted average number of shares outstanding was 76,133,567 (2009 – 72,841,072). As the result was anti-dilutive in both fiscal 2010 and 2009, no adjustments were made to net loss to calculated diluted loss per share.

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16 Net change in non-cash working capital items

	2010	2009
	\$	\$
Accounts receivable	(329,223)	276,202
Prepaid expenses	24,028	(111,077)
Inventories	(37,630)	24,000
Goodwill restatement	-	-
Accounts payable and accrued liabilities	563,270	(473,871)
	<u>220,445</u>	<u>(284,746)</u>

17 Management of capital

As at August 31, 2010, the Corporation's capital is composed of share capital of \$66,288,967, cash and cash equivalents of \$29,442,956 and an available revolving line of credit of \$100,000 that had an outstanding balance of \$nil.

The Corporation's primary objectives when managing capital are as follows:

- a) To safeguard the entity's ability to continue as a going concern, so that it can provide returns to shareholders and benefits for other stakeholders; and
- b) To maintain sufficient cash and cash equivalents and short-term investments to fund its business plan.

The Corporation's primary uses of capital are to finance commercialization of its Powerwave and Primawave technologies, tool research, development and manufacturing, market development, working capital, capital expenditures, and operating losses.

The Corporation is not subject to any externally imposed capital requirements. The Corporation's strategy remains unchanged from prior periods.

18 Segmented information

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

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Year ended August 31, 2010	Equipment and technology \$	Oil and gas properties \$	Corporate and other \$	Year ended August 31 2010 \$
Revenue	2,204,101	190,507	123,318	2,517,926
Net loss for the year	(5,076,315)	(2,284,069)	(1,278,409)	(8,638,789)
Changes in goodwill	70,107	-	-	70,107
Segment assets	7,165,797	937,484	29,069,201	37,172,482
Capital expenditures	967,926	-	49,462	1,017,388

Year ended August 31, 2009	Equipment and technology \$	Oil and gas properties \$	Corporate and other \$	Year ended August 31 2009 \$
Revenue	1,141,051	177,821	297,729	1,616,601
Net loss for the year	(4,416,161)	(2,293,137)	(1,222,920)	(7,932,218)
Changes in goodwill	163,248	-	-	163,248
Segment assets	6,385,177	2,925,597	15,166,826	24,477,600
Capital expenditures	2,002,419	382,026	65,002	2,449,447

Geographic Information	2010		2009	
	Revenue \$	Total assets \$	Revenue \$	Total assets \$
Canada	1,973,031	36,678,908	1,337,539	22,094,339
United States	544,895	493,574	279,062	2,383,261
	2,517,926	37,172,482	1,616,601	24,477,600

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During the year ended August 31, 2010, the Corporation recorded revenue from 78 customers (2009 – 49 customers). Sales in 2010 from the top three customers amounted to \$714,530, \$453,025 and \$257,268, which represented 28.4%, 18.0% and 10.2%, respectively of total revenue. Sales in 2009 from the top three customers amounted to \$231,340, \$195,923 and \$63,000, which represented 14.0%, 11.9% and 3.8 %, respectively of total revenue.

19 Seasonality of operations

Oilfield services offered by the Corporation are seasonable and related to the product offering and geographical extent to which products were offered for sale. The Corporation's pump and bailer product offering, in relation to oilfield services, are rental and sale of downhole equipment. At present, the target geographical area of the product offering is Alberta and Saskatchewan. Due to temperature influences on ground conditions, the months of December, March and April have lower activities.

The Corporation however, focuses the majority of its resources on Powerwave and Primawave technologies. As the markets are diverse for Powerwave and Primawave, seasonal fluctuations are limited to geographic being served. In addition there are no known seasonal fluctuations in regards to oil production. As such management believes that this seasonality of operations will have minimal affects moving forward.

20 Financial instruments

Financial instruments consist of the Corporation's cash, guaranteed investment certificates, accounts receivable, accounts payable and accrued liabilities, lines of credit, and amounts due to shareholders. The Corporation is not subject to any covenants or restrictions to any indebtedness.

Fair Value

Fair value is subjective in nature, requiring valuation techniques and assumptions. Fair value amounts disclosed in these consolidated financial statements represent the Corporation's estimate of the price at which a financial instrument could be exchanged in a market in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. They are point-in-time estimates that may change in subsequent reporting periods due to market conditions or other factors.

The carrying amounts in the balance sheet for cash and cash equivalents approximate their fair values due to the short terms to maturity of these instruments.

The carrying amounts in the balance sheet for accounts receivable, accounts payable and accrued liabilities, and amounts due to shareholders are recorded at amortized cost and approximate their fair values due to the short terms to maturity of these instruments.

The Corporation is exposed to the following risks in respect of certain financial instruments held:

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Liquidity Risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they come due. The Corporation has sustained substantial losses and negative cash flows. As at August 31, 2010, the Corporation had \$29,442,956 of cash and cash equivalents.

Cash includes \$9,500,000 held in an open term deposit bearing interest at 0.55%, maturing September 2, 2010, and \$19,010,151 held in a guaranteed investment certificate bearing interest at 0.65%, maturing September 24, 2010.

The following are the contractual undiscounted financial liabilities as at August 31, 2010:

	Total	less than 1 year	2 -3 years	4 -5 years	greater than 5 years
Accounts payable and accrued liabilities	1,173,495	1,173,495	-	-	-

In addition, the Corporation has an authorized revolving line of credit available of \$100,000, with \$nil amounts outstanding as at August 31, 2010. The revolving line of credit bears an interest rate of prime plus 0.25% and is repayable on demand and secured by a limited personal guarantee and a guaranteed investment certificate of a shareholder.

Credit Risk

Credit risk arises from the potential that a counterparty to a financial instrument fails to meet its contractual obligations. The Corporation manages credit risk associated with the cash and cash equivalents and short-term investments by investing primarily in short-term investments issued by Schedule 1 Canadian banks and government investment instruments. While the Corporation does not hold asset-backed securities directly, these parties may be exposed in varying degrees to asset-backed securities and U.S. sub-prime mortgages. The Corporation regularly monitors its investments to manage this potential risk.

The risk may also affect accounts receivable. In normal course of business, the Corporation reviews new customer credit history and conducts review of existing counterparty financial positions. Provisions are established and maintained with regards to potential losses. The analysis of aged trade receivables that are past due but not impaired as at August 31, 2010 is as follows:

	Total	31 – 90 Days	91 – 120 days	121 +days
Accounts receivable	444,110	263,579	37,157	143,374

The Corporation maintains an Export Development Canada insurance policy on all approved, foreign receivables outside of the United States. Over the past years, the Corporation has not suffered any material losses related to credit risk.

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Foreign Currency Risk

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

The US dollar carrying amounts subject to exposure to foreign currency risk as at August 31, 2010 are as follows:

	US Dollars
Cash and cash equivalents	166,720
Accounts receivable	198,496
Accounts payable and accrued liabilities	(52,962)

Based on the above exposures as at August 31, 2010, and assuming that all other variables remain constant, a 5% depreciation or appreciation of the Canadian dollar against the US dollar would result in a decrease or increase in the Corporation's net loss and comprehensive loss of approximately \$16,610 applicable to the US dollar exposure.

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

Commodity Price Risk

Commodity price risk is the risk that the fair value of future cash flows of financial instruments will fluctuate because of changes in commodity oil and gas prices. Production revenues, production over-riding royalties and Powerwave license fees based on producer production revenues will be affected by the changes in the oil and gas prices.

Based on the above exposure as at August 31, 2010, and assuming that all other variables remain constant, a 10% decrease or increase in commodity prices would result in a decrease or increase in the Corporation's net loss and comprehensive loss of approximately \$34,665 applicable to the commodity price fluctuation.

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

21 Contingencies

In the normal course of operations, the Corporation may provide indemnification to counterparties that would require the Corporation to compensate them for costs incurred as a result of litigation claims or statutory

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sanctions that may be suffered by the counterparty as a consequence of the transaction. The terms of these indemnification agreements will vary based upon the contract. Management does not expect the potential amount of these counterparty payments to have a material effect on the Corporation's financial position or operating results.

22 Related party transactions

The Corporation had the following related party transactions:

- a) During the year ended August 31, 2010, directors exercised 430,000 (2009 - 585,000) incentive stock options at prices ranging from \$0.40 to \$0.45 for aggregate consideration \$185,250.
- b) During the year ended August 31, 2010, directors were issued 260,000 (2009 - 500,000) incentive stock options at a price \$0.72 and 75,000 incentive stock options at a price of \$1.45. The incentive stock options are subject to the Stock Option Plan, and expire on September 13, 2014 and July 14, 2015, respectively.

23 Subsequent events

Subsequent to the year ended August 31, 2010, the Corporation had the following incentive stock option transactions:

- a) Directors were issued 545,000 incentive stock options with an exercise price of at \$0.97. The stock options are subject to the Stock Option Plan, and expire on September 14, 2015.
- b) An employee was issued 200,000 incentive stock options with an exercise price of at \$1.61. The stock options are subject to the Stock Option Plan, and expire on October 15, 2015.
- c) Employees exercised 24,830 incentive stock options at a price of \$0.59 for aggregate consideration \$14,650.
- d) 250,420 employee stock options were terminated with exercise prices ranging from \$0.50 to \$2.90.

Additionally, subsequent to the year ended August 31, 2010, on September 10, 2010 the Corporation entered into a new office space and warehouse lease for it Edmonton, Alberta facilities. The office and warehouse lease has a commencement date of February 1, 2011 and a ten year term expiring on January 31, 2021. The Corporation has the option for early termination of the office and warehouse lease after year five for a one time payment of \$100,000. The future commitment in base rental payments is \$1,491,100 over the ten years.