

Unaudited Consolidated Financial Statements of

WAVEFRONT TECHNOLOGY SOLUTIONS INC.

For the Third Quarter ended May 31, 2010

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WAVEFRONT TECHNOLOGY SOLUTIONS INC.

Consolidated Balance Sheets

	As at May 31, 2010 \$ (Unaudited)	As at August 31, 2009 \$ (Audited – note 2)
Assets		
Current assets		
Cash and cash equivalents	31,171,947	15,336,137
Accounts receivable	810,353	535,869
Prepaid expenses	102,793	145,567
Inventory	98,094	62,339
	<u>32,183,187</u>	<u>16,079,912</u>
Deposits	76,640	65,735
Property, plant and equipment (notes 5 and 14)	5,538,068	5,197,970
Intangible assets (note 6)	1,934,075	1,981,873
Goodwill	1,222,217	1,152,110
	<u>40,954,187</u>	<u>24,477,600</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	1,543,656	610,224
Current portion of amounts due to shareholders	-	75,470
	<u>1,543,656</u>	<u>685,694</u>
Asset retirement obligation (note 7)	188,156	187,348
	<u>1,731,812</u>	<u>873,042</u>
Shareholders' Equity		
Share capital (note 9)	66,080,319	49,721,045
Contributed surplus	7,504,595	3,328,245
Deficit	(34,362,539)	(29,444,732)
	<u>39,222,375</u>	<u>23,604,558</u>
	<u>40,954,187</u>	<u>24,477,600</u>

WAVEFRONT TECHNOLOGY SOLUTIONS INC.

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

	Nine Month Period Ended		Three Month Period Ended	
	May 31, 2010	May 31, 2009	May 31, 2010	May 31, 2009
	\$	\$	\$	\$
Revenue				
Service revenue and royalties	1,571,411	711,967	614,582	287,078
Production revenue and operator fees, net of taxes and royalties	124,323	99,137	56,905	55,967
Interest and other	75,169	267,721	22,451	37,021
	<u>1,770,903</u>	<u>1,078,825</u>	<u>693,938</u>	<u>380,066</u>
Expenses				
Direct costs	856,848	330,041	199,828	105,113
General and administrative expenses	3,381,266	3,125,637	1,103,494	1,154,668
Selling, marketing and travel	741,563	667,605	384,792	201,085
Amortization, depreciation, depletion and accretion expenses	666,736	470,708	245,850	207,449
Stock-based compensation (note 9)	336,314	543,097	84,096	207,354
Research and development	248,664	301,821	162,015	144,095
Write-down of oilfield property, plant and equipment, and non-participation amounts	217,505	1,133,936	217,505	-
Listing and public company fees	180,328	109,114	63,502	8,634
loss on disposal of property, plant and equipment	58,502	26,721	62,910	20,384
Interest expense	2,964	12,911	221	3,186
Foreign exchange (gain) loss	(1,980)	(194,847)	(9,287)	91,549
Write-down of intangible assets	-	555,212	-	-
	<u>6,688,710</u>	<u>7,081,956</u>	<u>2,514,926</u>	<u>2,143,517</u>
Net loss and comprehensive loss for the period	(4,917,807)	(6,003,131)	(1,820,988)	(1,763,451)
Deficit – Beginning of period	(29,444,732)	(21,512,514)	(32,541,551)	(25,752,194)
Deficit – End of period	(34,362,539)	(27,515,645)	(34,362,539)	(27,515,645)
Loss per common share (note 12)				
Basic and diluted	<u>(0.07)</u>	<u>(0.08)</u>	<u>(0.02)</u>	<u>(0.02)</u>

WAVEFRONT TECHNOLOGY SOLUTIONS INC.

Consolidated Statements of Cash Flows (Unaudited)

	Nine Month Period Ended		Three Month Period Ended	
	May 31, 2010	May 31, 2009	May 31, 2010	May 31, 2009
	\$	\$	\$	\$
Cash provided from (used in)				
Operating activities				
Net loss for the period	(4,917,807)	(6,003,131)	(1,820,988)	(1,763,451)
Items not affecting cash				
Amortization, depreciation, depletion and accretion expenses	666,736	470,708	245,850	207,449
Stock-based compensation (note 9)	336,314	543,097	84,096	207,354
Write-down of oilfield property, plant and equipment, and non participation amounts	217,505	1,133,936	217,505	-
Write-down of intangible assets	-	555,212	-	-
Loss on disposal of property, plant and equipment	58,502	26,721	62,910	20,384
	<u>(3,638,750)</u>	<u>(3,273,457)</u>	<u>(1,210,627)</u>	<u>(1,328,264)</u>
Net change in non-cash working capital items	650,587	459,375	346,348	495,061
	<u>(2,988,163)</u>	<u>(2,814,082)</u>	<u>(864,279)</u>	<u>(833,203)</u>
Financing activities				
Proceeds from private placement net of share issuance costs (note 9)	20,022,362	-	20,022,362	-
Proceeds from exercise of incentive stock options	176,948	337,400	2,655	92,400
Repayment of long-term debt	-	(111,807)	-	-
Repayment of obligations under capital leases	-	(2,867)	-	-
Repayment of amounts due to shareholder	(75,470)	(102,392)	(2,000)	(34,850)
	<u>20,123,840</u>	<u>120,334</u>	<u>20,023,017</u>	<u>57,550</u>
Investing activities				
Purchase of property, plant and equipment (note 5)	(1,178,265)	(1,959,096)	(522,980)	(647,648)
Business acquisition	(70,107)	(550,676)	-	-
Intangible costs (note 6)	(56,695)	(86,231)	(25,163)	(44,882)
Proceeds on disposal of property, plant and equipment	5,200	26,050	-	25,475
	<u>(1,299,867)</u>	<u>(2,569,953)</u>	<u>(548,143)</u>	<u>(667,055)</u>
Increase (decrease) in cash and cash equivalents	15,835,810	(5,263,701)	18,610,595	(1,442,708)
Cash and cash equivalents – Beginning of period	15,336,137	22,435,719	12,561,352	18,614,726
Cash and cash equivalents – End of period	31,171,947	17,172,018	31,171,947	17,172,018
Supplementary information				
Interest paid	3,630	15,461	221	5,876

WAVEFRONT TECHNOLOGY SOLUTIONS INC.

Notes to the Consolidated Financial Statements (Unaudited)

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. BASIS OF PRESENTATION

These interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”) for interim financial statements using the same accounting policies as set out in the financial statements of the Corporation for the year ended August 31, 2009. Omitted from these statements are certain information and note disclosures normally included in the annual consolidated financial statements prepared in accordance with Canadian GAAP. These interim consolidated financial statements should be read in conjunction with the financial statements of the Corporation for the year ended August 31, 2009.

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 replaced 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. This revised standard did not have a material effect on our financial position or results of operations.

4. RECENT ACCOUNTING PRONOUNCEMENTS ISSUED AND NOT YET ADOPTED

Business Combinations

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

WAVEFRONT TECHNOLOGY SOLUTIONS INC.

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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.

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 Corporation is currently evaluating the impact of the amendments to the standard.

5. PROPERTY, PLANT and EQUIPMENT

	Nine Months Ended May 31, 2010			Year Ended August 31, 2009
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Equipment	\$ 5,648,157	\$ 1,303,659	\$ 4,344,498	\$ 3,709,021
Oilfield property, plant and equipment	336,520	62,487	274,033	513,006
Non-participation amounts	772,914	54,842	718,072	735,014
Computer equipment	239,007	183,898	55,109	67,326
Computer software	345,749	328,229	17,520	19,445
Automotive equipment	114,658	33,520	81,138	96,233
Office furniture	122,315	74,617	47,698	57,925
	\$ 7,579,320	\$ 2,041,252	\$ 5,538,068	\$ 5,197,970

Property, plant and equipment includes equipment under construction of \$1,485,670 (August 31, 2009 - \$1,130,601), which is not being depreciated.

Depreciation expense for the nine month period ended May 31, 2010 was \$549,895 (May 31, 2009 - \$369,146).

WAVEFRONT TECHNOLOGY SOLUTIONS INC.

Notes to the Consolidated Financial Statements (Unaudited)

Rogers County

During the quarter ended November 30, 2008, 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, an impairment review was completed and the Corporation recorded a write-down of its Rogers County property, plant and equipment and non-participation amounts by \$1,133,936. The fair value was determined based on estimated present value of future cash flows calculated using internal production estimates and historical average prices per barrel of oil. 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 13). 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. No impairment was recorded for in the nine month period ended May 31, 2010.

There are no other contractual obligations for Boulder to repay the Corporation other than the assignment of production revenues.

Depletion expense for Rogers County oilfield property plant and equipment and non-participation amounts totaled \$31,342 (May 31, 2009 - \$60,215).

During the nine month period ended May 31, 2010, the Corporation has recognized production revenue of \$79,358 (May 31, 2009 – \$62,338) related to the Rogers County venture.

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 13).

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 13).

WAVEFRONT TECHNOLOGY SOLUTIONS INC.

Notes to the Consolidated Financial Statements (Unaudited)

6. INTANGIBLE ASSETS

	Nine Months Ended May 31, 2010			Year Ended August 31, 2009
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Royalty rights	\$ 1,719,872	\$ 222,453	\$ 1,497,419	\$ 1,571,821
Fully-paid up license	106,990	26,374	80,616	84,776
Patents	497,654	141,614	356,040	325,276
	\$ 2,324,516	\$ 390,441	\$ 1,934,075	\$ 1,981,873

Amortization expense for the period ended May 31, 2010 totaled \$104,492 (May 31, 2009 - \$89,744).

Greentree Gas and Oil Ltd. royalty rights

As at May 31, 2010, the Corporation had paid Greentree \$2,168,834 (August 31, 2009 – \$2,168,834) under the Farm-in Agreement. The resulting asset is classified as finite life intangible asset (see note 16 – Subsequent Event).

Amortization expense for the nine months ended May 31, 2010 totaled \$74,408 (May 31, 2009 - \$64,133) on the royalty rights.

During the quarter ended November 30, 2008, the Corporation reviewed the carrying amount of its royalty rights and, whether there were indications, events or circumstances that may have caused impairment since the most recently completed fiscal year. As a result, an impairment review was completed and the Corporation recorded a write-down of its royalty rights by \$555,212. 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 13). The calculated amounts that were written-down, and the resulting carrying value, may not be indicative of the actual values. No impairment was recorded for in the nine month period ended May 31, 2010.

7. ASSET RETIREMENT OBLIGATION

The Corporation has asset retirement obligations associated with its oilfield property, plant and equipment (note 5). 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 portion of oilfield property, plant and equipment assets:

	Nine Months Ended May 31, 2010	Year Ended August 31, 2009
	\$	\$
Asset retirement obligations – Beginning of period	187,348	174,562
Liabilities incurred	-	-
Changes in estimated future cash flow	(7,447)	(1,865)

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Accretion expense	11,645	13,041
Foreign currency	(3,390)	1,610
	<u>188,156</u>	<u>187,348</u>
Asset retirement obligations – End of period		

The total undiscounted amount of estimated cash flows required to settle the obligation is US \$322,528 (August 31, 2009 – US \$328,736), which has been discounted using credit-adjusted risk free rates ranging from 6.72% to 13.61%. The majority of these obligations are not expected to be settled for one to twenty-nine years in the future and will be funded from general corporate resources at the time of the retirement and removal.

8. COMMITMENTS

a) Operating leases

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

Fiscal Year	\$
2010	23,733
2011	73,057
	<u>96,790</u>

9. SHARE CAPITAL

The Corporation's authorized and issued share capital as at May 31, 2010 and August 31, 2009 are as follows:

Authorized

Unlimited common shares without par value

Issued common shares

	Nine Months Ended May 31, 2010		Year Ended August 31, 2009	
	Number #	Stated capital \$	Number #	Stated capital \$
Balance – Beginning of period	71,759,808	49,721,045	71,064,808	49,319,704
Shares issued in private placement ⁽¹⁾	10,438,170	16,110,149	-	-
Stock options exercised ⁽²⁾	359,266	249,125	695,000	401,341
Balance – End of period	<u>82,557,244</u>	<u>66,080,319</u>	<u>71,759,808</u>	<u>49,721,045</u>

(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

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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 ("Share") 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 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. 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 \$1,897,795, resulting in net cash proceeds of \$20,022,362.

- (2) The 359,266 stock options exercised during the period ended May 31, 2010, were at a prices ranging from \$0.45 to \$0.97 for gross proceeds of \$176,947.

Warrants

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

	Nine Months Ended May 31, 2010		Year Ended August 31, 2009	
	Number #	Exercise price \$	Number #	Exercise price \$
Outstanding – Beginning of period	-	-	-	-
Granted ⁽¹⁾	5,219,085	2.75	-	-
Outstanding – End of period	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.

The value allocated to the Share Purchase Warrants issued during the reporting period was calculated using the Black-Scholes option pricing model, assuming the following:

Dividend yield	-
Risk-free rate	1.90%
Average life	0.57 years
Volatility rate	66.79%
Value of warrants granted during the period	\$ 0.75

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.

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Notes to the Consolidated Financial Statements (Unaudited)

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

Stock options	Nine Months Ended May 31, 2010		Year Ended August 31, 2009	
	Number #	Weighted average exercise price \$	Number #	Weighted average exercise price \$
Outstanding – Beginning of period	3,108,970	1.56	3,015,170	1.60
Granted	260,000	0.72	878,800	0.56
Exercised	(359,266)	0.49	(695,000)	0.49
Cancelled	-	-	(40,000)	1.94
Expired	(76,284)	0.75	(50,000)	0.50
Outstanding – End of period	2,933,420	1.64	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	0.6	725,000	0.6
2.90	135,000	3.1	135,000	3.1
2.57	200,000	1.0	200,000	1.0
2.05	200,000	2.8	200,000	2.8
1.76	100,000	1.2	100,000	1.2
1.65	210,000	2.7	210,000	2.7
1.40	50,000	2.7	50,000	2.7
0.97	96,670	1.8	96,670	1.8
0.72	260,000	4.3	86,666	4.3
0.60	26,250	3.7	17,500	3.7
0.59	90,500	4.1	42,987	4.1
0.54	600,000	3.6	499,985	3.6
0.40	240,000	0.3	240,000	0.3
	2,933,420	2.2	2,603,808	1.8

- (a) During the nine month period ended May 31, 2010, 260,000 incentive stock options were issued to Directors of the Corporation at a price of \$0.72. The incentive stock options are set to expire September 4, 2014.

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Notes to the Consolidated Financial Statements (Unaudited)

- (b) During the period ended May 31, 2009, 750,000 incentive stock options were issued at prices ranging from \$0.54 to \$0.60. Of the 750,000 incentive stock options issued, 500,000 were issued to directors of the Corporation.
- (c) Subsequent to the reporting period, 92,500 incentive stock options with exercise prices ranging from \$0.40 to \$0.97 were exercised by a Director of the Corporation for net proceeds to the Corporation of \$45,100.
- (d) Subsequent to the reporting period the Corporation issued 170,000 incentive stock options with an exercise price of \$1.45. The incentive stock options are set to expire July 14, 2015. Of the 170,000 incentive stock options issued, 75,000 were issued to a director of the Corporation.

The fair value of the compensation costs of stock options issued in the reporting period to both employees and non-employees was calculated using the Black-Scholes option pricing model resulting in a charge to wages and to consultant expense with a corresponding increase in contributed surplus, assuming the following:

	May 31, 2010	May 31, 2009
Dividend yield	-	-
Risk-free rate	2.61%	1.86%
Average life	5 years	5 years
Volatility rate	122.1%	124.0%
Weighted fair value of options granted during the period	0.60	0.46

During the nine month period ended May 31, 2010, the Corporation incurred \$336,314 (2009 – \$543,097) 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.

Contributed surplus

	Nine Months Ended May 31, 2010	Year Ended August 31, 2009
	\$	\$
Balance – Beginning of year	3,328,245	2,642,913
Stock based compensation	336,314	749,273
Stock options exercised	(72,177)	(63,941)
Warrant issuance	3,912,213	-
Balance – End of year	7,504,595	3,328,245

Escrow shares

The balance of all common shares held in escrow as at May 31, 2010, was 180,000 (August 31, 2009 – 180,000).

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Notes to the Consolidated Financial Statements (Unaudited)

10. MANAGEMENT OF CAPITAL

As at May 31, 2010, the Corporation's capital is composed of share capital of \$66,080,319, cash and cash equivalents of \$31,171,947 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:

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

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

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

11. FINANCIAL INSTRUMENTS

Financial instruments consists of the Corporation's cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and amounts due to shareholders. The Corporation is not subject to any covenants or restrictions related to any indebtedness.

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

Fair value

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

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

The carrying amounts in the balance sheet for accounts receivable, accounts payable and accrued liabilities, and amounts due to shareholders are recorded at amortized cost and approximate their fair value due to the short term nature of those items.

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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 May 31, 2010, the Corporation had \$31,171,947 of cash and cash equivalents.

Cash includes \$30,300,000 held in guaranteed investment certificate bearing interest at 0.45% and a term deposit bearing interest at 0.60% maturing on June 2, 2010 and July 26, 2010, respectively. The following are the contractual undiscounted financial liabilities as at May 31, 2010:

	Total	less than 1 year	2 – 3 years	4 – 5 years	greater than 5 years
Accounts payable and accrued liabilities	1,543,656	1,543,656	-	-	-

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

Credit risk

Credit risk arises from the potential that a counterparty to a financial instrument fails to meet their contractual obligations. The Corporation manages credit risk associated with cash and cash equivalents and short-term investments by investing primarily in short-term investments issued by Schedule 1 Canadian banks and government investment instruments. While the Corporation does not hold asset-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.

Credit risk may also affect accounts receivable. In the normal course of business, the Corporation reviews new customer credit history and conducts reviews of existing counterparty financial position. Provisions are established and maintained with regards to potential losses. As at May 31, 2010, four customers represent 74% of the accounts receivable. The past due trade receivable distribution of the Corporation is as follows:

	Total	Current 1 -90 days	91 – 120 days	121 + days
Accounts receivable	\$639,679	582,890	44,068	12,721

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

The Corporation is also exposed to a counterparty credit risk with respect to the Greentree Royalty Rights agreements (note 6).

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

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equivalents, accounts receivable, accounts payable and accrued liabilities that are denominated in foreign currencies will be affected by changes in the exchange rate between the Canadian dollar and US dollar.

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

	US dollars
Cash and cash equivalents	\$221,703
Accounts receivable	240,704
Accounts payable and accrued liabilities	162,914

Based on the above exposures as at May 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 \$15,667 applicable to the US dollar exposure.

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

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in interest rates. In respect of accounts payable and accrued liabilities, lines of credit, and amounts due to shareholders, the Corporation is not exposed to interest rate fluctuation since terms to maturity are short or interest rates are fixed.

The Corporation's accounts receivable however, will be affected by changes in interest rate fluctuation. Based on these exposures as at May 31, 2010, and assuming that all other variables remain constant, a 500 basis point interest rate decrease or increase would result in a decrease or increase in the Corporation's net loss and comprehensive loss of approximately \$248 applicable to the interest rate fluctuation.

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

Commodity price risk

Commodity price risk is the risk that the fair value of future cash flows of financial instruments will fluctuate because of changes in commodity oil and gas prices. Production revenues, production 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 May 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 \$10,108 applicable to the commodity price rate fluctuation.

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

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12. LOSS PER SHARE

The Corporation uses the treasury stock method to calculate diluted loss per share. Under the treasury stock method, the numerator remains unchanged from the basic loss per share calculation, as the assumed exercise of the Corporation's share purchase warrants and stock options do not result in an adjustment to income. The weighted average number of common shares outstanding was 73,401,295 (May 31, 2009 – 71,513,398).

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

In determining diluted loss per share, the weighted average number of shares outstanding was increased by 427,369 (May 31, 2009 – 1,137,483) 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 73,828,664 (May 31, 2009 – 72,650,881). As the result was anti-dilutive in both periods ending May 31, 2010 and 2009, no adjustments were made to net loss to calculated diluted loss per share.

13. SEGMENTED INFORMATION

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

Nine Months Ended May 31, 2010	Equipment and technology \$	Oil and gas properties \$	Corporate and other \$	Total \$
Revenue	1,565,418	125,097	80,388	1,770,903
Net loss for the period	(3,188,197)	(716,160)	(1,013,450)	(4,917,807)
Segment assets	7,825,602	2,576,626	30,551,959	40,954,187
Capital expenditures	1,276,526	-	23,341	1,299,867

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Nine Months Ended May 31, 2009	Equipment and technology \$	Oil and gas properties \$	Corporate and other \$	Total 2009 \$
Revenue	714,851	99,137	264,837	1,078,825
Net loss for the period	(3,034,797)	(2,127,970)	(840,364)	(6,003,131)
Segment assets	6,468,928	3,408,769	17,037,807	26,915,504
Capital expenditures	2,153,018	382,026	60,959	2,596,003

Geographic Information	Nine Months Ended May 31, 2010		Nine Months Ended May 31, 2009	
	Revenue \$	Total assets \$	Revenue \$	Total assets \$
Canada	1,375,434	39,375,605	894,196	24,910,034
United States	395,469	1,578,582	184,629	2,005,470
	1,770,903	40,954,187	1,078,825	26,915,504

During the nine month period ended May 31, 2010, the Corporation recorded revenue from 58 customers (2009 – 38 customers). Sales in the nine months ended May 31, 2010 from the top three customers amounted to \$1,095,016 which represented 33%, 20% and 10% respectively of total revenues. Sales in the nine months ended May 31, 2009 from the top three customers amounted to \$248,550, \$209,394, and \$200,759, which represented 19%, 16%, and 16%, respectively of total revenues.

Three Months Ended May 31, 2010	Equipment and technology \$	Oil and gas properties \$	Corporate and other \$	Total \$
Revenue	614,731	57,678	21,529	693,938
Net loss for the period	(1,081,536)	(365,497)	(373,955)	(1,820,988)
Segment assets	7,825,602	2,576,626	30,551,959	40,954,187
Capital expenditures	527,534	-	20,609	548,143

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Three Months Ended May 31, 2009	Equipment and technology \$	Oil and gas properties \$	Corporate and other \$	Total 2009 \$
Revenue	287,773	55,967	36,326	380,066
Net loss for the period	(960,079)	(325,916)	(477,456)	(1,763,451)
Segment assets	6,468,928	3,408,769	17,037,807	26,915,504
Capital expenditures	665,775	-	26,755	692,530

Geographic Information	Three Months Ended May 31, 2010		Three Months Ended May 31, 2009	
	Revenue \$	Total assets \$	Revenue \$	Total assets \$
Canada	582,053	39,375,605	328,082	24,910,034
United States	111,885	1,578,582	51,984	2,005,470
	693,938	40,954,187	380,066	26,915,504

14. RELATED PARTY TRANSACTIONS

During the nine month period ended May 31, 2010, the Corporation had the following related party transactions:

- In a prior year, the Corporation entered into the Option Agreement to acquire ninety percent (90%) of the working interest in the production, equipment and mineral leases known as the Chelsea-Alluwe Waterflood Leases in Rogers County, Oklahoma ("Leases"). Boulder Oil, LLC, a related limited liability company executed the Option Agreement on behalf of the Corporation by paying US\$165,000 of the purchase price in exchange for a sixty percent (60%) working interest in the Leases. Each working interest party is responsible for operating and field development costs in proportions relative to their working interest percentage.

During the fiscal year ending August 31, 2006, the Corporation became the Operator of Record. As the Operator, the Corporation is initially responsible for all operating expenses and development costs, which are then charged back to each non-operating partner relative to their working interest percentage. Boulder however, as a non-operating partner, exercised its non-participation right under the Joint Operating Agreement. Under the Joint Operating Agreement, the Corporation will receive all production revenues from production wells until such time that the Corporation is repaid 200% of the costs incurred, after which, production revenues will revert back to the working interest proportions. As at May 31, 2010, amounts recorded under non-participation amounts owed totalled \$718,072 (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

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200% of the costs incurred, after which, production revenues will revert back to the working interest proportions.

- (b) During the reporting period a director of the Corporation exercised 265,000 incentive stock options at a price of \$0.45 for net proceeds to the Corporation of \$119,250.
- (e) Subsequent to the reporting period, 92,500 incentive stock options with exercise prices ranging from \$0.40 to \$0.97 were exercised by a Director of the Corporation for net proceeds to the Corporation of \$45,100.
- (c) 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.
- (d) Subsequent to the reporting period the Corporation issued 170,000 incentive stock options with an exercise price of \$1.45. The incentive stock options are set to expire July 14, 2015. Of the 170,000 incentive stock options issued, 75,000 were issued to a director of the Corporation.

15. SEASONALITY OF OPERATIONS

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

The Corporation focuses its resources on Powerwave and Primawave technologies. There 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. As such, management believes that seasonality of operations will have a minimal effect moving forward.

16. SUBSEQUENT EVENT

Subsequent to the reporting period, the Corporation reached an agreement with Greentree Gas and Oil Ltd. ("Greentree") to convert the net over-riding royalty interest ("Royalty Interest") into a working interest by way of quit claim and general rights conveyance of the Royalty Interest in exchange for Greentree assigning to the Corporation a fifty percent (50%) interest of its entire right, title and interest in the petroleum and natural gas rights, the miscellaneous interests and tangibles (the "Assets") of the Rodney South oilfield lease. The resulting change will have the asset reclassified as oilfield property plant and equipment.