

*Unaudited Consolidated Financial Statements of*

**WAVEFRONT TECHNOLOGY SOLUTIONS INC.**

*For the Second Quarter ended February 28, 2011*

**WAVEFRONT TECHNOLOGY SOLUTIONS INC.**

Consolidated Balance Sheets

	As at <b>February 28, 2011</b> \$ (Unaudited)	As at August 31, 2010 \$ (Audited – note 2)
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents (note 9)	26,719,364	29,442,956
Accounts receivable	1,151,600	865,092
Inventory	214,976	99,969
Prepaid expenses	175,928	83,701
	<u>28,261,868</u>	<u>30,491,718</u>
<b>Deposits</b>	<b>99,954</b>	103,573
<b>Property, plant and equipment</b> (note 4)	<b>4,832,155</b>	4,903,660
<b>Intangible assets</b> (note 5)	<b>476,854</b>	451,314
<b>Goodwill</b>	<b>1,222,217</b>	1,222,217
	<u>34,893,048</u>	<u>37,172,482</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	896,475	1,173,495
<b>Asset retirement obligations</b> (note 6)	<b>330,405</b>	316,022
	<u>1,226,880</u>	<u>1,489,517</u>
<b>Shareholders' Equity</b>		
<b>Share capital</b> (note 8)	<b>66,315,006</b>	66,288,967
<b>Contributed surplus</b> (note 8)	<b>7,782,145</b>	7,477,519
<b>Deficit</b>	<b>(40,430,983)</b>	(38,083,521)
	<u>33,666,168</u>	<u>35,682,965</u>
	<u>34,893,048</u>	<u>37,172,482</u>

**WAVEFRONT TECHNOLOGY SOLUTIONS INC.**

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

	Six Month Period Ended		Three Month Period Ended	
	February 28, 2011 \$	February 28, 2010 \$	February 28, 2011 \$	February 28, 2010 \$
<b>Revenue</b>				
Service revenue and royalties	1,695,857	956,829	894,018	455,145
Production revenue and operator fees, net of taxes and royalties	105,807	67,419	43,735	17,283
Interest and other	126,404	52,717	65,140	28,210
	<u>1,928,068</u>	<u>1,076,965</u>	<u>1,002,893</u>	<u>500,638</u>
<b>Expenses</b>				
Direct costs	476,066	657,020	153,368	414,315
General and administrative expenses	2,199,508	2,277,772	1,056,152	1,227,354
Selling, marketing and travel	510,832	356,771	195,862	185,635
Amortization, depreciation, depletion and accretion expenses	438,209	420,886	205,050	206,827
Stock-based compensation (note 8)	316,015	252,218	170,850	106,408
Research and development	229,131	86,649	33,469	59,411
Listing and public company fees	75,848	116,827	33,446	79,316
Foreign exchange loss	31,945	7,308	22,578	2,388
Interest expense	2,867	2,741	92	788
Loss (gain) on disposal of property, plant and equipment	(4,891)	(4,408)	2,636	(3,472)
	<u>4,275,530</u>	<u>4,173,784</u>	<u>1,873,503</u>	<u>2,278,970</u>
<b>Net loss and comprehensive loss for the period</b>	<b>(2,347,462)</b>	<b>(3,096,819)</b>	<b>(870,610)</b>	<b>(1,778,332)</b>
<b>Deficit – Beginning of period</b>	<b>(38,083,521)</b>	<b>(29,444,732)</b>	<b>(39,560,373)</b>	<b>(30,763,219)</b>
<b>Deficit – End of period</b>	<b>(40,430,983)</b>	<b>(32,541,551)</b>	<b>(40,430,983)</b>	<b>(32,541,551)</b>
<b>Loss per common share (note 11)</b>				
Basic and diluted	<u>(0.03)</u>	<u>(0.04)</u>	<u>(0.01)</u>	<u>(0.03)</u>

**WAVEFRONT TECHNOLOGY SOLUTIONS INC.**

Consolidated Statements of Cash Flows (Unaudited)

	Six Month Period Ended		Three Month Period Ended	
	February 28, 2011 \$	February 28, 2010 \$	February 28, 2011 \$	February 28, 2010 \$
<b>Cash provided from (used in)</b>				
<b>Operating activities</b>				
Net loss for the period	(2,347,462)	(3,096,819)	(870,610)	(1,778,332)
Items not affecting cash				
Amortization, depreciation, depletion and accretion expenses	438,209	420,886	205,050	206,827
Stock-based compensation (note 8)	316,015	252,218	170,850	106,408
Loss (gain) on disposal of property, plant and equipment	(4,891)	(4,408)	2,636	(3,472)
	<u>(1,598,129)</u>	<u>(2,428,123)</u>	<u>(492,074)</u>	<u>(1,468,569)</u>
Net change in non-cash working capital items	<u>(767,143)</u>	<u>304,239</u>	<u>(471,699)</u>	<u>446,652</u>
	<u>(2,365,272)</u>	<u>(2,123,884)</u>	<u>(963,773)</u>	<u>(1,021,917)</u>
<b>Financing activities</b>				
Proceeds from exercise of incentive stock options	14,650	174,293	-	3,324
Repayment of amounts due to shareholder	-	(73,470)	-	(37,122)
	<u>14,650</u>	<u>100,823</u>	<u>-</u>	<u>(33,798)</u>
<b>Investing activities</b>				
Purchase of property, plant and equipment (note 4)	(331,362)	(655,285)	(298,430)	(293,817)
Business acquisition	-	(70,107)	-	(70,107)
Intangible costs (note 5)	(51,288)	(31,532)	(23,302)	(3,003)
Proceeds on disposal of property, plant and equipment	9,680	5,200	880	4,100
	<u>(372,970)</u>	<u>(751,724)</u>	<u>(320,852)</u>	<u>(362,827)</u>
<b>Decrease in cash and cash equivalents</b>	<b>(2,723,592)</b>	<b>(2,774,785)</b>	<b>(1,284,625)</b>	<b>(1,418,542)</b>
<b>Cash and cash equivalents – Beginning of period</b>	<b>29,442,956</b>	<b>15,336,137</b>	<b>28,003,989</b>	<b>13,979,894</b>
<b>Cash and cash equivalents – End of period</b>	<b>26,719,364</b>	<b>12,561,352</b>	<b>26,719,364</b>	<b>12,561,352</b>
<b>Supplementary information</b>				
Interest paid	2,741	3,409	33	119

# WAVEFRONT TECHNOLOGY SOLUTIONS INC.

Notes to the Consolidated Financial Statements (Unaudited)

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## 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, 2010. 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, 2010.

## 3. 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. The Corporation believes that the revised section will not have a material effect on the Corporation’s financial position or results of operations.

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. The Corporation believes that the revised section will not have a material effect on the Corporation’s financial position or results of operations.

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

# WAVEFRONT TECHNOLOGY SOLUTIONS INC.

Notes to the Consolidated Financial Statements (Unaudited)

## 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 believes that the revised section will not have a material effect on the Corporation’s financial position or results of operations.

## 4. PROPERTY, PLANT and EQUIPMENT

	Six Months Ended February 28, 2011		Year Ended August 31, 2010	
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Equipment	\$ 5,632,354	\$ (1,837,321)	\$ 3,795,033	\$ 3,846,517
Oilfield property, plant and equipment	1,114,874	(273,220)	841,654	876,874
Computer equipment	262,314	(197,209)	65,105	51,132
Computer software	349,090	(342,996)	6,094	15,587
Automotive equipment	107,090	(42,274)	64,816	75,311
Office furniture	126,379	(66,926)	59,453	38,239
	\$ 7,592,101	\$ (2,759,946)	\$ 4,832,155	\$ 4,903,660

Property, plant and equipment includes equipment under construction of \$757,226 (August 31, 2010 - \$725,426), which is not being depreciated.

Depreciation expense for the six month period ended February 28, 2011 was \$398,078 (February 28, 2010 - \$347,157).

### Oilfield property, plant, and equipment - Rodney South

The Corporation has a 50% interest in the legal and beneficial rights and title in specific oil and injection wells in Rodney South, Ontario. Greentree Gas & Oil Ltd. (“Greentree”) owns all mineral rights, will act as the operator of the lease and will provide field maintenance, support and administration. The Corporation has responsibility for its proportionate share of operating costs.

## WAVEFRONT TECHNOLOGY SOLUTIONS INC.

Notes to the Consolidated Financial Statements (Unaudited)

### 5. INTANGIBLE ASSETS

	<b>Six Months Ended</b>			<b>Year Ended</b>
	<b>February 28, 2011</b>			<b>August 31, 2010</b>
	<b>Cost</b>	<b>Accumulated Depreciation</b>	<b>Net Book Value</b>	<b>Net Book Value</b>
Fully-paid up license	\$ 106,990	\$ (30,293)	\$ 76,697	\$ 79,214
Patents	571,579	(171,422)	400,157	372,100
	<u>\$ 678,569</u>	<u>\$ (201,715)</u>	<u>\$ 476,854</u>	<u>\$ 451,314</u>

Amortization expense for the six month period ended February 28, 2011 totaled \$25,748 (February 28, 2010 - \$66,048).

### 6. ASSET RETIREMENT OBLIGATIONS

The Corporation has asset retirement obligations associated with its oilfield property, plant and equipment. These asset retirement obligations primarily relate to the plugging of wells and abandonment costs related to the Rogers County and Rodney South oilfields.

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:

	<b>Six Months Ended February 28, 2011</b>	<b>Year Ended August 31, 2010</b>
	<b>\$</b>	<b>\$</b>
Asset retirement obligations – Beginning of period	316,022	187,348
Liabilities incurred	-	9,521
Changes in estimated future cash flow	-	108,080
Accretion expense	14,383	14,364
Foreign currency	-	(3,291)
Asset retirement obligations – End of period	<u>330,405</u>	<u>316,022</u>

The total undiscounted amount of estimated cash flows required to settle the obligation is \$395,534 (August 31, 2010 – \$395,534), 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-one years in the future and will be funded from general corporate resources at the time of the retirement and removal.

# WAVEFRONT TECHNOLOGY SOLUTIONS INC.

Notes to the Consolidated Financial Statements (Unaudited)

## 7. COMMITMENTS

### a) Operating leases

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

<b>Fiscal Year</b>	<b>\$</b>
2011	154,394
2012	252,242
2013	237,747
2014	240,021
2015	242,012
2016	233,811
2017	199,233
2018	200,655
2019	202,930
2020	204,068
2021	85,028
	<u>2,252,141</u>

## 8. SHARE CAPITAL

The Corporation's authorized and issued share capital as at February 28, 2011 and August 31, 2010 are as follows:

### Authorized

Unlimited common shares without par value

### Issued common shares

	<b>Six Months Ended February 28, 2011</b>		<b>Year Ended August 31, 2010</b>	
	<b>Number #</b>	<b>Stated capital \$</b>	<b>Number #</b>	<b>Stated capital \$</b>
Balance – Beginning of period	82,814,744	66,288,967	71,759,808	49,721,045
Shares issued in private placement <sup>(1)</sup>	-	-	10,438,170	16,110,953
Stock options exercised <sup>(2)(3)</sup>	24,830	26,039	616,766	456,969
Balance – End of period	<u>82,839,574</u>	<u>66,315,006</u>	<u>82,814,744</u>	<u>66,288,967</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 1/2 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

# WAVEFRONT TECHNOLOGY SOLUTIONS INC.

Notes to the Consolidated Financial Statements (Unaudited)

\$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.

Subsequent to the reporting period the TSX Venture Exchange approved the extension of the Warrant expiry to April 27, 2012.

- (2) The 24,830 incentive stock options exercised during the period ended February 28, 2011, were at a price of \$0.59 for gross proceeds of \$14,650.
- (3) 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.

## Warrants

A summary of the status of the Corporation Share Purchase Warrants as at February 28, 2011 and August 31, 2010, and the changes during the periods ended on those dates is presented below:

	Six Months Ended February 28, 2011		Year Ended August 31, 2010	
	Number #	Exercise price \$	Number #	Exercise price \$
Outstanding – Beginning of period	5,219,085	2.75	-	-
Granted <sup>(1)</sup>	-	-	5,219,085	2.75
Outstanding – End of period	5,219,085	2.75	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 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.

Subsequent to the reporting period the TSX Venture Exchange approved the extension of the Warrant expiry to April 27, 2012.

## 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 maximum period of ten years.

# WAVEFRONT TECHNOLOGY SOLUTIONS INC.

Notes to the Consolidated Financial Statements (Unaudited)

A summary of the status of the Corporation's Stock Option Plan as at February 28, 2011 and August 31, 2010, and the changes during the periods ended on those dates is presented below:

	<b>Six Months Ended February 28, 2011</b>		<b>Year Ended August 31, 2010</b>	
<b>Stock options</b>	<b>Number #</b>	<b>Weighted average exercise price \$</b>	<b>Number #</b>	<b>Weighted average exercise price \$</b>
Outstanding – Beginning of period	2,845,920	1.74	3,108,970	1.56
Granted	745,000	1.14	430,000	1.01
Exercised	(24,830)	0.59	(616,766)	0.47
Cancelled	(975,420)	2.80	(76,284)	0.75
Outstanding – End of period	2,590,670	1.18	2,845,920	1.74

	<b>Options outstanding</b>		<b>Options exercisable</b>	
<b>Exercise price \$</b>	<b>Number outstanding #</b>	<b>Weighted average remaining contractual life in years</b>	<b>Number outstanding #</b>	<b>Weighted average remaining contractual life in years</b>
2.90	115,000	2.33	115,000	2.33
2.05	200,000	2.01	200,000	2.01
1.76	100,000	0.42	100,000	0.42
1.65	210,000	1.99	210,000	1.99
1.61	200,000	4.63	33,333	4.63
1.45	170,000	4.36	56,666	4.36
1.40	50,000	1.96	50,000	1.96
0.97	631,670	4.06	177,504	2.82
0.72	252,500	3.52	209,165	3.52
0.59	61,500	3.36	61,500	3.36
0.54	600,000	2.85	600,000	2.85
	2,590,670	3.19	1,813,168	2.64

## WAVEFRONT TECHNOLOGY SOLUTIONS INC.

Notes to the Consolidated Financial Statements (Unaudited)

- a) Effective September 14, 2010, the Corporation issued 545,000 incentive stock options to directors of the Corporation with an exercise price of \$0.97. The stock options are subject to the Stock Option Plan, and expire on September 14, 2015.
- b) Effective October 15, 2010, the Corporation issued 200,000 incentive stock options to an employee of the Corporation with an exercise price of \$1.61. The stock options are subject to the Stock Option Plan, and expire on October 15, 2015.
- c) Subsequent to the reporting period, the Corporation issued 75,000 incentive stock options to a director of the Corporations with an exercise price of \$0.94. The stock options are subject to the Stock Options Plan, and expire on March 14, 2016.

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:

	<b>February 28, 2011</b>	<b>August 31, 2010</b>
Dividend yield	-	-
Risk-free rate	1.98% to 2.22%	2.54% to 2.61%
Average life	5 years	5 years
Volatility rate	102.95% to 110.05%	112.65% to 122.09%
Weighted fair value of options granted during the period	\$0.77 to \$1.23	\$0.60 to \$1.17

During the six month period ended February 28, 2011, the Corporation incurred \$316,015 (2010 – \$252,218) 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

	<b>Six Months Ended February 28, 2011</b>	<b>Year Ended August 31, 2010</b>
	\$	\$
Balance – Beginning of period	7,477,519	3,328,245
Stock based compensation	316,015	405,983
Stock options exercised	(11,389)	(168,922)
Warrant issuance	-	3,912,213
Balance – End of period	<u>7,782,145</u>	<u>7,477,519</u>

## WAVEFRONT TECHNOLOGY SOLUTIONS INC.

Notes to the Consolidated Financial Statements (Unaudited)

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### 9. MANAGEMENT OF CAPITAL

As at February 28, 2011, the Corporation's capital is composed of share capital of \$66,315,006, cash and cash equivalents of \$26,719,364, 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 has pledged \$325,000 in a closed, 30 day, guaranteed investment certificate as security against a letter of credit. Otherwise the Corporation is not subject to any externally imposed capital requirements. The Corporation's strategy remains unchanged from prior periods.

### 10. FINANCIAL INSTRUMENTS

Financial instruments consist of the Corporation's cash, accounts receivable, accounts payable and accrued liabilities, and lines of credit. The Corporation is not subject to any covenants or restrictions related 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, 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:

## WAVEFRONT TECHNOLOGY SOLUTIONS INC.

Notes to the Consolidated Financial Statements (Unaudited)

### *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 February 28, 2011, the Corporation had \$26,719,364 of cash and cash equivalents.

Cash includes \$18,657,852 held in two separate guaranteed investment certificates both bearing interest at 1.00%, maturing March 28, 2011, and \$7,200,000 held in an open term deposit bearing interest at 0.95%, maturing March 7, 2011.

The following are the contractual undiscounted financial liabilities as at February 28, 2011:

	<b>Total</b>	<b>less than 1 year</b>	<b>2-3 years</b>	<b>4-5 years</b>	<b>greater than 5 years</b>
Contractual obligations	3,148,615	1,185,830	475,038	483,740	1,004,007

In addition, the Corporation has an authorized revolving line of credit available of \$100,000, with \$nil amounts outstanding as at February 28, 2011. 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 February 28, 2011 is as follows:

	<b>Total</b>	<b>31 – 90 Days</b>	<b>91 – 120 days</b>	<b>121 +days</b>
Accounts receivable	402,020	201,032	123,536	77,452

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.

## WAVEFRONT TECHNOLOGY SOLUTIONS INC.

Notes to the Consolidated Financial Statements (Unaudited)

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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 receivable, accounts payable 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 February 28, 2011 is as follows:

	<b>US Dollars</b>
Cash and cash equivalents	186,363
Accounts receivable	169,221
Accounts payable and accrued liabilities	23,536

Based on the above exposures as at February 28, 2011, 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 \$18,461 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 February 28, 2011, 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 \$13,965 applicable to the commodity price fluctuation.

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

## WAVEFRONT TECHNOLOGY SOLUTIONS INC.

Notes to the Consolidated Financial Statements (Unaudited)

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### 11. 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 82,833,538 (February 28, 2010 – 72,028,109).

Diluted loss per share is computed by giving effect to the potential dilution that would occur if stock options and common share purchase warrants were exercised. The treasury stock method assumes that the proceeds received from the exercise of the "in-the-money" stock options and common share purchase warrants are used to repurchase common shares at the average market price for the period ended February 28, 2011.

In determining diluted loss per share, the weighted average number of shares outstanding was increased by 1,231,009 (February 28, 2010 – 435,540) 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 84,064,547 (February 28, 2010 – 72,463,649). As the result was anti-dilutive in both periods ending February 28, 2011 and 2010, no adjustments were made to net loss to calculate diluted loss per share.

### 12. 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 operation of oil and gas properties to showcase the Corporation's Powerwave technology and equipment. The accounting policies of these segments are the same as those described in note 2.

<b>Six Months Ended February 28, 2011</b>	<b>Equipment and technology \$</b>	<b>Oil and gas properties \$</b>	<b>Corporate and other \$</b>	<b>Total 2011 \$</b>
Revenue	1,705,246	105,903	116,919	1,928,068
Net loss for the period	(1,656,363)	(55,215)	(635,884)	(2,347,462)
Segment assets	7,995,251	893,391	26,004,406	34,893,048
Capital expenditures	336,771	-	36,199	372,970

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Notes to the Consolidated Financial Statements (Unaudited)

<b>Six Months Ended February 28, 2010</b>	<b>Equipment and technology \$</b>	<b>Oil and gas properties \$</b>	<b>Corporate and other \$</b>	<b>Total 2010 \$</b>
Revenue	950,688	67,418	58,859	1,076,965
Net loss for the period	(2,150,630)	(350,664)	(595,525)	(3,096,819)
Segment assets	6,859,312	2,851,098	12,510,413	22,220,823
Capital expenditures	748,992	-	2,732	751,724

<b>Geographic Information</b>	<b>Six Months Ended February 28, 2011</b>		<b>Six Months Ended February 28, 2010</b>	
	<b>Revenue \$</b>	<b>Total assets \$</b>	<b>Revenue \$</b>	<b>Total assets \$</b>
Canada	1,570,100	34,432,606	793,381	20,526,567
United States	357,968	460,442	283,584	1,694,256
	1,928,068	34,893,048	1,076,965	22,220,823

During the six month period ended February 28, 2011, the Corporation recorded revenue from 47 customers (2010 – 49 customers). Sales in the six months ended February 28, 2011 from the top three customers amounted to \$536,609, \$429,777 and \$212,231 which represented 32%, 26% and 13% respectively of total revenues. Sales in the six months ended February 28, 2010 from the top three customers amounted to \$416,165, \$97,726, and \$95,788, which represented 42%, 10% and 10%, respectively of total revenues.

<b>Three months ended February 28, 2011</b>	<b>Equipment and technology \$</b>	<b>Oil and gas properties \$</b>	<b>Corporate and other \$</b>	<b>Total \$</b>
Revenue	897,159	43,830	61,904	1,002,893
Net loss for the period	(540,620)	(23,589)	(306,501)	(870,610)
Segment assets	7,995,251	893,391	26,004,406	34,893,048
Capital expenditures	305,648	-	15,204	320,852

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Notes to the Consolidated Financial Statements (Unaudited)

	<b>Equipment and technology \$</b>	<b>Oil and gas properties \$</b>	<b>Corporate and other \$</b>	<b>Total 2009 \$</b>
<b>Three months ended February 28, 2010</b>				
Revenue	455,156	17,283	28,199	500,638
Net loss for the period	(1,270,990)	(215,728)	(291,614)	(1,778,332)
Segment assets	6,859,312	2,851,098	12,510,413	22,220,823
Capital expenditures	362,827	-	-	362,827
	<b>Three months ended February 28, 2011</b>		<b>Three months ended February 28, 2010</b>	
	<b>Revenue \$</b>	<b>Total assets \$</b>	<b>Revenue \$</b>	<b>Total assets \$</b>
<b>Geographic Information</b>				
Canada	838,804	34,432,607	358,346	20,526,567
United States	164,089	460,441	142,292	1,694,256
	1,002,893	34,893,048	500,638	22,220,823

**13. RELATED PARTY TRANSACTIONS**

During the six month period ended February 28, 2011, the Corporation had the following related party transactions:

- a) Directors were issued 545,000 incentive stock options with an exercise price of \$0.97. The stock options are subject to the Stock Option Plan, and expire on September 14, 2015.
- b) The Corporation has entered into a twelve month Powerwave License agreement to provide up to three Powerwave licenses and systems at a rate of \$2,400 per month per Powerwave license, plus any associated installation fees with a company whose executive officer is also a director of the Corporation. There is a 100% discount to the Powerwave licensing fee for the first four months of the agreement. The monetary transaction is considered to be in the normal course of operations and is measured at the exchange amount. For the six months ended February 28, 2011, the Corporation recorded \$15,605 in revenue related to Powerwave tool installation, with \$nil included in accounts receivable.
- d) The Corporation has entered into a twelve month Powerwave License agreement to provide up to four Powerwave licenses and systems at a rate of \$3,000, plus any associated installation fees with a company whose executive officer and director is also

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Notes to the Consolidated Financial Statements (Unaudited)

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a director of the Corporation. There is a 100% discount to the Powerwave licensing fee for the first two months of the agreement. The monetary transaction is considered to be in the normal course of operations and is measured at the exchange amount. For the six months ended February 28, 2011, the Corporation recorded \$4,040 in revenue related to Powerwave tool installation, with \$nil included in accounts receivable.

- e) Subsequent to the reporting period, a director was issued 75,000 incentive stock options with an exercise price of \$0.94. The stock options are subject to the Stock Options Plan, and expire on March 14, 2016.

### 14. SEASONALITY OF OPERATIONS

Oilfield services offered by the Corporation are seasonal 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 the geography 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.