

Unaudited Consolidated Financial Statements of

WAVEFRONT TECHNOLOGY SOLUTIONS INC.

For the Third Quarter ended May 31, 2011

WAVEFRONT TECHNOLOGY SOLUTIONS INC.

Consolidated Balance Sheets

	As at May 31, 2011 \$ (Unaudited)	As at August 31, 2010 \$ (Audited – note 2)
Assets		
Current assets		
Cash and cash equivalents (note 9)	25,466,653	29,442,956
Accounts receivable	1,313,668	865,092
Inventory	342,609	99,969
Prepaid expenses	113,101	83,701
	<u>27,236,031</u>	<u>30,491,718</u>
Deposits	136,594	103,573
Property, plant and equipment (note 4)	5,265,868	4,903,660
Intangible assets (note 5)	481,960	451,314
Goodwill	1,222,217	1,222,217
	<u>34,342,670</u>	<u>37,172,482</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	1,109,028	1,173,495
Asset retirement obligations (note 6)	337,746	316,022
	<u>1,446,774</u>	<u>1,489,517</u>
Shareholders' Equity		
Share capital (note 8)	66,320,249	66,288,967
Contributed surplus (note 8)	7,936,037	7,477,519
Deficit	(41,360,390)	(38,083,521)
	<u>32,895,896</u>	<u>35,682,965</u>
	<u>34,342,670</u>	<u>37,172,482</u>

WAVEFRONT TECHNOLOGY SOLUTIONS INC.

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

	Nine Month Period Ended		Three Month Period Ended	
	May 31,		May 31,	
	2011	2010	2011	2010
	\$	\$	\$	\$
Revenue				
Service revenue and royalties	2,710,624	1,571,411	1,014,767	614,582
Production revenue and operator fees, net of taxes and royalties	168,480	124,323	62,673	56,905
Interest and other	196,255	75,169	69,851	22,451
	<u>3,075,359</u>	<u>1,770,903</u>	<u>1,147,291</u>	<u>693,938</u>
Expenses				
Direct costs	687,526	856,848	211,460	199,828
General and administrative expenses	3,405,959	3,381,266	1,206,451	1,103,494
Selling, marketing and travel	733,547	741,563	222,715	384,792
Amortization, depreciation, depletion and accretion expenses	698,519	666,736	260,310	245,850
Stock-based compensation (note 8)	472,200	336,314	156,185	84,096
Research and development	204,846	248,664	(24,285)	162,015
Listing and public company fees	117,412	180,328	41,564	63,502
Foreign exchange (gain) loss	35,957	(1,980)	4,012	(9,287)
Interest expense	3,051	2,964	184	221
Write-down of oilfield property, plant and Equipment, and non-participation amounts	-	217,505	-	217,505
(Gain) Loss on disposal of property, plant and equipment	(6,789)	58,502	(1,898)	62,910
	<u>6,352,228</u>	<u>6,688,710</u>	<u>2,076,698</u>	<u>2,514,926</u>
Net loss and comprehensive loss for the period	(3,276,869)	(4,917,807)	(929,407)	(1,820,988)
Deficit – Beginning of period	(38,083,521)	(29,444,732)	(40,430,983)	(32,541,551)
Deficit – End of period	(41,360,390)	(34,362,539)	(41,360,390)	(34,362,539)
Loss per common share (note 11)				
Basic and diluted	<u>(0.04)</u>	<u>(0.07)</u>	<u>(0.01)</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,		May 31,	
	2011	2010	2011	2010
	\$	\$	\$	\$
Cash provided from (used in)				
Operating activities				
Net loss for the period	(3,276,869)	(4,917,807)	(929,407)	(1,820,988)
Items not affecting cash				
Amortization, depreciation, depletion and accretion expenses	698,519	666,736	260,310	245,850
Stock-based compensation (note 8)	472,200	336,314	156,185	84,096
Write-down of oilfield property, plant and equipment, and non participation amounts	-	217,505	-	217,505
(Gain) loss on disposal of property, plant and equipment	(6,789)	58,502	(1,898)	62,910
	<u>(2,112,939)</u>	<u>(3,638,750)</u>	<u>(514,810)</u>	<u>(1,210,627)</u>
Net change in non-cash working capital items	(818,102)	650,587	(50,960)	346,348
	<u>(2,931,041)</u>	<u>(2,988,163)</u>	<u>(565,770)</u>	<u>(864,279)</u>
Financing activities				
Proceeds from private placement net of share				
Issuance costs (note 8)	-	20,022,362	-	20,022,362
Proceeds from exercise of incentive stock options	17,600	176,948	2,950	2,655
Repayment of amounts due to shareholder	-	(75,470)	-	(2,000)
	<u>17,600</u>	<u>20,123,840</u>	<u>2,950</u>	<u>20,023,017</u>
Investing activities				
Purchase of property, plant and equipment	(1,004,932)	(1,178,265)	(673,569)	(522,980)
Business acquisition	-	(70,107)	-	-
Intangible costs	(69,810)	(56,965)	(18,522)	(25,163)
Proceeds on disposal of property, plant and equipment	11,880	5,200	2,200	-
	<u>(1,062,862)</u>	<u>(1,299,867)</u>	<u>(689,891)</u>	<u>(548,143)</u>
Increase (decrease) in cash and cash equivalents	(3,976,303)	15,835,810	(1,252,711)	18,610,595
Cash and cash equivalents – Beginning of period	29,442,956	15,336,137	26,719,364	12,561,352
Cash and cash equivalents – End of period	25,466,653	31,171,947	25,466,653	31,171,947
Supplementary information				
Interest paid	3,051	3,630	233	221

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, 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.

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Notes to the Consolidated Financial Statements (Unaudited)

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 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

	Nine Months Ended May 31, 2011			Year Ended August 31, 2010
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Equipment	\$ 5,659,400	\$ (2,002,495)	\$ 3,656,905	\$ 3,846,517
Oilfield property, plant and equipment	1,114,874	(286,052)	828,822	876,874
Leasehold Improvements	559,501	(9,307)	550,194	-
Computer equipment	185,887	(128,437)	57,450	51,132
Computer software	349,091	(347,739)	1,352	15,587
Automotive equipment	107,090	(45,943)	61,147	75,311
Office furniture	137,007	(27,009)	109,998	38,239
	<u>\$ 8,112,850</u>	<u>\$ (2,846,982)</u>	<u>\$ 5,265,868</u>	<u>\$ 4,903,660</u>

Property, plant and equipment includes equipment under construction of \$221,071 (August 31, 2010 - \$725,426), which is not being depreciated.

Depreciation expense for the nine month period ended May 31, 2011 was \$636,801 (May 31, 2010 - \$549,895).

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. On-Energy Corp. owns all mineral rights, will act as the operator of the lease and will provide field maintenance, support and administration. The Corporation has recognized its proportionate share of net production revenue and operating costs.

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Notes to the Consolidated Financial Statements (Unaudited)

5. INTANGIBLE ASSETS

	Nine Months Ended			Year Ended
	May 31, 2011			August 31, 2010
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Patents	\$ 593,546	\$ (187,079)	\$ 406,467	\$ 372,100
Fully-paid up licenses	106,990	(31,497)	75,493	79,214
	<u>\$ 700,536</u>	<u>\$ (218,576)</u>	<u>\$ 481,960</u>	<u>\$ 451,314</u>

Amortization expense for the nine month period ended May 31, 2011 totaled \$39,164 (May 31, 2010 - \$104,492).

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 operation of 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:

	Nine Months Ended May 31, 2011	Year Ended August 31, 2010
	\$	\$
Asset retirement obligations – Beginning of period	316,022	187,348
Liabilities incurred	-	9,521
Changes in estimated future cash flow	-	108,080
Accretion expense	22,554	14,364
Foreign currency	(830)	(3,291)
Asset retirement obligations – End of period	<u>337,746</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.

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Notes to the Consolidated Financial Statements (Unaudited)

7. COMMITMENTS

Operating leases

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

Fiscal Year	\$
2011	98,322
2012	308,242
2013	237,747
2014	240,022
2015	242,012
2016	233,811
2017	199,233
2018	200,655
2019	202,930
2020	204,067
2021	85,026
	<u>2,252,067</u>

8. SHARE CAPITAL

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

Authorized

Unlimited common shares without par value

Issued common shares

	Nine Months Ended May 31, 2011		Year Ended August 31, 2010	
	Number #	Stated capital \$	Number #	Stated capital \$
Balance – Beginning of period	82,814,744	66,288,967	71,759,808	49,721,045
Shares issued in private placement ⁽¹⁾	-	-	10,438,170	16,110,953
Stock options exercised ^{(2) (3)}	29,830	31,282	616,766	456,969
Balance – End of period	<u>82,844,574</u>	<u>66,320,249</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 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

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\$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. 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.

During the reporting period, the TSX Venture Exchange approved the extension of the Warrants such that the new expiry, subject to the above noted accelerated expiry, is now April 27, 2012. The recorded value of the Warrants did not change as a result of the Warrant extension.

- (2) The 29,830 incentive stock options exercised during the period ended February 28, 2011, were at a price of \$0.59 for gross proceeds of \$17,600.
- (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's Share Purchase Warrants as at May 31, 2011 and August 31, 2010, and the changes during the periods ended on those dates is presented below:

	Nine Months Ended May 31, 2011		Year Ended August 31, 2010	
	Number #	Exercise price \$	Number #	Exercise price \$
Outstanding – Beginning of period	5,219,085	2.75	-	-
Granted	-	-	5,219,085	2.75
Outstanding – End of period	5,219,085	2.75	5,219,085	2.75

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. Stock options awards do not require any vesting and are exercisable for a maximum period of ten years.

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

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Notes to the Consolidated Financial Statements (Unaudited)

	Nine Months Ended May 31, 2011		Year Ended August 31, 2010	
	Number #	Weighted average exercise price \$	Number #	Weighted average exercise price \$
Stock options				
Outstanding – Beginning of period	2,845,920	1.74	3,108,970	1.56
Granted	1,020,000	1.12	430,000	1.01
Exercised	(29,830)	0.49	(616,766)	0.47
Cancelled	(975,420)	2.80	(76,284)	0.75
Outstanding – End of period	2,860,670	1.17	2,845,920	1.74

Exercise price \$	Options outstanding		Options exercisable	
	Number outstanding #	Weighted average remaining contractual life in years	Number outstanding #	Weighted average remaining contractual life in years
2.90	115,000	2.08	115,000	2.08
2.05	200,000	1.76	200,000	1.76
1.76	100,000	0.17	100,000	0.17
1.65	210,000	1.73	210,000	1.73
1.61	200,000	4.38	66,667	4.38
1.45	170,000	4.11	85,000	4.11
1.40	50,000	1.71	50,000	1.71
1.13	200,000	4.99	-	-
0.97	631,670	3.81	268,336	3.15
0.94	75,000	4.79	-	-
0.72	252,500	3.26	252,500	3.26
0.59	56,500	3.10	56,500	3.10
0.54	600,000	2.60	600,000	2.60
	2,860,670	3.13	2,004,003	2.55

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- 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) Effective March 14, 2011, the Corporation issued 75,000 incentive stock options to a director of the Corporation with an exercise price of \$0.94. The stock options are subject to the Stock Option Plan, and expire on March 14, 2016.
- d) Effective May 25, 2011, the Corporation issued 200,000 incentive stock options to an employee of the Corporation with an exercise price of \$1.13. The stock options are subject to the Stock Option Plan, and expire on May 25, 2016.

The estimated fair value of the compensation costs of stock options issued in the reporting period was calculated using the Black-Scholes option pricing model on the grant date, and results in a charge to wage and to consultant expense with a corresponding increase in contributed surplus, assuming the following:

	Nine Months Ended May 31, 2011
Dividend yield	-
Risk-free rate	1.98% to 2.56%
Average life	5 years
Volatility	94.38% to 110.05%
Weighted fair value of options granted during the period	\$0.77 to \$1.23

The expected volatility is based on the historical volatility of the Company's shares over a period commensurate with the expected term of the share option. The risk-free interest rate for the expected life of the options is based in the yield available on government bonds, with the approximate equivalent remaining term at the time of the grant. Historical data and individual stock option agreement terms were used to estimate the expected life of the option.

During the nine month period ended May 31, 2011, the Corporation incurred \$472,200 (2010 – \$336,314) 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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Notes to the Consolidated Financial Statements (Unaudited)

Contributed surplus

	Nine Months Ended May 31, 2011	Year Ended August 31, 2010
	\$	\$
Balance – Beginning of period	7,477,519	3,328,245
Stock based compensation	472,200	405,983
Stock options exercised	(13,682)	(168,922)
Warrant issuance	-	3,912,213
	<hr/>	<hr/>
Balance – End of period	7,936,037	7,477,519

9. MANAGEMENT OF CAPITAL

As at May 31, 2011, the Corporation's capital is composed of share capital of \$66,320,249, cash and cash equivalents of \$25,466,653, 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 the 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.

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Notes to the Consolidated Financial Statements (Unaudited)

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:

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, 2011, the Corporation had \$25,466,653 of cash and cash equivalents.

Cash includes \$18,706,778 held in two separate guaranteed investment certificates both bearing interest at 1.05%, maturing June 27, 2011, and \$6,000,000 held in an open term deposit bearing interest at 1.00%, maturing June 6, 2011.

The following are the contractual undiscounted financial liabilities as at May 31, 2011:

	Total	less than 1 year	2-3 years	4-5 years	greater than 5 years
Contractual obligations	3,361,095	1,207,350	545,989	482,034	1,125,722

In addition, the Corporation has an authorized revolving line of credit available of \$100,000, with \$nil amounts outstanding as at May 31, 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

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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:

	Total	31 – 90 Days	91 – 120 days	121 +days
Accounts receivable	533,113	380,652	130,564	21,897

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.

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 May 31, 2011 is as follows:

	US Dollars
Cash and cash equivalents	101,819
Accounts receivable	231,230
Accounts payable and accrued liabilities	(93,574)

Based on the above exposures as at May 31, 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 \$11,600 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.

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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, 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 \$22,104 applicable to the commodity price fluctuation.

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

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 82,835,682 (May 31, 2010 – 73,401,925).

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, 2011.

In determining diluted loss per share, the weighted average number of shares outstanding was increased by 1,664,694 (May 31, 2010 – 427,369) 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 84,500,376 (May 31, 2010 – 73,828,664). As the result was anti-dilutive in both periods ending May 31, 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.

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Notes to the Consolidated Financial Statements (Unaudited)

Nine Months Ended May 31, 2011	Equipment and technology \$	Oil and gas properties \$	Corporate and other \$	Total 2011 \$
Revenue	2,725,005	168,574	181,780	3,075,359
Net loss for the period	(2,293,190)	(74,442)	(909,237)	(3,276,869)
Segment assets	8,665,333	880,289	24,797,048	34,342,670
Capital expenditures	973,318	-	89,544	1,062,862

Nine Months Ended May 31, 2010	Equipment and technology \$	Oil and gas properties \$	Corporate and other \$	Total 2010 \$
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

Geographic Information	Nine Months Ended May 31, 2011		Nine Months Ended May 31, 2010	
	Revenue \$	Total assets \$	Revenue \$	Total assets \$
Canada	2,528,161	33,847,321	1,375,434	39,375,605
United States	547,198	495,349	395,469	1,578,582
	<u>3,075,359</u>	<u>34,342,670</u>	<u>1,770,903</u>	<u>40,954,187</u>

During the nine month period ended May 31, 2011, the Corporation recorded revenue from 53 customers (2010 – 58 customers). Sales in the nine months ended May 31, 2011 from the top three customers amounted to \$833,102, \$772,050 and \$314,103 which represented 27%, 25% and 10% respectively of total revenues. Sales in the nine months ended May 31, 2010 from the top three customers amounted to \$248,550, \$209,394 and \$200,759, which represented 14%, 11% and 11%, respectively of total revenues.

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Three months ended May 31, 2011	Equipment and technology \$	Oil and gas properties \$	Corporate and other \$	Total \$
Revenue	1,019,758	62,672	64,861	1,147,291
Net loss for the period	(636,824)	(19,227)	(273,356)	(929,407)
Segment assets	8,665,333	880,289	24,797,048	34,342,670
Capital expenditures	636,547	-	53,344	689,891

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

Geographic Information	Three months ended May 31, 2011		Three months ended May 31, 2010	
	Revenue \$	Total assets \$	Revenue \$	Total assets \$
Canada	958,060	33,847,320	582,053	39,375,605
United States	189,231	495,350	111,885	1,578,582
	<u>1,147,291</u>	<u>34,342,670</u>	<u>693,938</u>	<u>40,954,187</u>

13. RELATED PARTY TRANSACTIONS

During the nine month period ended May 31, 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.

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- 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 nine months ended May 31, 2011, the Corporation recorded \$86,511 in revenue related to Powerwave tool installation, with \$15,120 included in accounts receivable.
- e) 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 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 nine months ended May 31, 2011, the Corporation recorded \$4,040 in revenue related to Powerwave tool installation, with \$nil included in accounts receivable.
- f) During 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 Option Plan, and expire on March 14, 2016.

14. 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 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.

Powerwave and Primawave are registered trademarks of Wavefront Technology Solutions Inc.