

British Columbia Securities Commission
Quarterly Report
BC Form 51-901F

ISSUER DETAILS:

Name of Issuer: Wavefront Energy and Environmental Services Inc.	For Quarter Ended: November 30, 2003	Date of Report: Y M D 04 01 29
Issuer's Address: Suite 104, 11430 – 168 th Street	City: Edmonton	Province: Alberta
Postal Code: T5M 3T9	Issuer Telephone: 780.486.2222	Issuer Facsimile: 780.484.7177
Contact Name: D. Brad Paterson	Contact Position: Chief Financial Officer	Contact telephone No.: 780.486.2222 ext 224

CERTIFICATE

The schedule(s) required to complete this Quarterly Report are attached and the disclosure contained therein has been approved by the Board of Directors. A copy of this Quarterly Report will be provided to any shareholder who requests it.

SIGNED: Brett C. Davidson (signed)
NAME OF DIRECTOR

January 29, 2004
DATE SIGNED

SIGNED: D. Brad Paterson (signed)
NAME OF DIRECTOR

January 29, 2004
DATE SIGNED

Wavefront Energy and Environmental Services Inc.

Quarterly Report
For Period Ended November 30, 2003

Schedule A: Financial Information

See Financial Statements for the three (3) months ended November 30, 2003 attached to, and forming part of, this Quarterly Report and Schedules B and C for further discussion and analysis.

Schedule B: Supplementary Information

Item 1. Analysis of expenses and deferred costs.

The following discussion and comparisons of financial results are between the three months of Wavefront Energy and Environmental Services Inc. ("Wavefront Energy") and the corresponding three months for PE-TECH Inc. ("PE-TECH") in fiscal 2002.

- a. Revenue decreased by \$14,096, or 19%, to \$60,051 (2002 - \$74,147) as a result of timing of revenue recognition. Revenues for the reporting period are below budgeted due to delays in environmental pressure pulsing tool development and client scheduling delays in environmental pressure pulsing projects, whereas monitoring revenues approximate expectations.

Also for revenues in 2002 includes \$44,563 for a six month project completed in the quarter. Other income relates to contributions from clients relating to work on pilot and research projects in Pressure Pulsing Technology ("PPT"). Expenses related to these pilot projects are recorded in research and development expenses.

- b. Cost of goods sold of \$35,965 represented 59.9% of sale comparable to 74.3% of sale for the previous year (2002 - \$55,103). As illustrated in the table below, cost of goods sold in 2002 did not include direct labour or direct project costs. Direct material costs as a percent of revenue decreased as a result of changes in the pricing of integrated monitoring products.

	2003	Percent of Revenue	2002	Percent of Revenue
Direct Materials	\$18,220	30.3%	\$55,103	74.3%
Direct Project Costs	2,387	4.0%	n/a	n/a
Direct Labour	15,357	25.6%	n/a	n/a
Total Cost of Goods Sold	\$35,965	59.9%	\$55,103	74.3%

The inclusion of direct project costs, such as vehicle rentals, and direct labour could not be retroactively applied, as the information was not available or sufficiently reliable to be used.

- c. The decrease in operating expenses by \$248,559 to \$514,571 (2002 - \$763,130) were congruent with budgeted expectations and is a result of the following:
 - i. Wage expense decreased by \$174,552 to \$170,727 (2002 - \$345,279) principally due to the allocation of \$90,379 of direct labour to the cost of goods sold (\$15,357), work in progress (\$19,266), assets under construction (\$18,415), research and development (\$25,180) and warranty work (\$12,161). As of September 1, 2003, the accrual related to the seconded person has ended and no more expenses will be accrued relating to this secondment, this reduced expenses in the quarter by \$30,000. Average number of full time employees during

the year was 14 (2002 – 13). The corporation has also been approved for the “First Jobs in Science and Technology Program” through Western Economic Diversification Canada that will pay 50% of two new employees salaries for up to 12 months.

- ii. Professional expense decreased by \$22,987 to \$100,138 (2002 - \$123,125). These expenses relate principally to the reverse takeover, the private placement and to the audit of the Corporation and its subsidiaries. The expenses will continue at similar levels as the Corporation continues to grow and be involved in compliance issues in foreign jurisdictions.
- iii. Office expense decreased by \$15,055 to \$73,572 (2002 - \$88,627). The decrease is mainly due to the closing of the Cambridge office and termination of the lease. The larger facility was not needed at this time and the Corporation had the opportunity to terminate the lease with a \$10,000 refund. Included in this category are rent (\$27,686) and insurance (inclusive of Directors and Officers liability Insurance and General insurance - \$27,705) with the remaining relating to the cost of operating the Corporation’s offices.
- iv. Research and Development expense remained relatively constant at \$26,144 (2002 - \$26,053). The wage portion of this expense increased, due to a reduced wage paid in 2002, while the materials portion decreased because there was little activity with PPT in this quarter, with projects not starting until January.
- v. Travel and Promotion expense decreased by \$22,257 to \$23,464 (2002 - \$45,721). The 2002 expense included approximately \$8,100 in travel costs related to projects, which are now recorded in cost of goods sold. Also included in 2002 is \$9,800 in expenses for a trade show which occurred in that quarter. Travel costs relate to travelling associated with marketing initiatives to increase the understanding and sales of PPT to U.S. government agencies, major industry and large environmental management companies. These costs will continue as the organization continues to promote PPT and the Corporation. Efforts to sell and market environmental PPT applications will continue to focus in the U.S.
- vi. Depreciation and Amortization expense decreased by \$7,567 to \$30,786 (2002 - \$38,353) due to the impairment of goodwill and intangible assets, which was done at the end of fiscal 2002.
- vii. Consultant expense decreased by \$26,997 to \$30,055 (2002 - \$57,052) due to the reduction of the number of consultants and their rates. These costs will continue and likely increase as the organization continues to promote the PPT and the Corporation.
- viii. Vehicle expense decreased by \$10,051 to \$13,747 (2002 - \$23,798). This is principally due to the recording of vehicle and fuel expenses directly to projects and cost of goods sold. The remaining costs relate to sales, general shop and overhead vehicle expenses.
- ix. Repairs and Maintenance expense increased by \$8,955 to \$13,440 (2002 - \$4,485). This increase was principally due to improved organization of the shop with regards to inventory and workflow. The remaining costs relate to the repair and maintenance of equipment and tools. These costs will increase with the increased use of equipment.
- x. Interest on Notes Payable expense increased by \$1,933 to \$12,559 (2002 - \$10,626). Interest relates to Shareholder loans, a line of credit and interest on leases. There are no anticipated changes to the Notes Payable and the accrual of interest will continue in the forthcoming year.
- xi. Listing and Public Company Fees was \$19,850 in the quarter. There was no expense in 2002 as PE-TECH was not a publicly traded company. The majority of this period’s expense was

the listing fee of \$17,500, which is a one-time cost. These fees will continue now that the Corporation is trading on the TSX Venture Stock Exchange.

- d. Accounts payable and accrued liabilities in the amount of \$727,257 (2003 - \$720,602) are comprised of accounts payable of \$439,043 (2003 - \$382,664) and accrued liabilities \$288,214 (2003 - \$337,933). Accounts Payable includes a disputed invoice for \$112,662. This is disputed due to the quality of materials received. It is not known when this will be paid, as the supplier has been slow to respond to the Corporation's concerns. The remaining accounts payable relate to overheads (\$107,361), manufacture of pulsing equipment (\$50,751), ongoing monitoring work (\$28,361), insurance (\$29,463) professional fees related to the Acquisition and audit (\$102,016), and other professional fees (\$8,429). Accrued Liabilities includes \$120,000 relating to the secondment of personnel from an arms-length, international oil company. As of September 1, 2003, the accrual related to the seconded person has ended and no more expenses will be accrued relating to this secondment. Other notable accruals are audit fees (\$25,000), interest (\$33,797), warranty (\$39,707) and other payroll accruals (\$52,979).
- e. Unearned Revenue is made up of monitoring projects for which payment has been received but which have not been completed due to rescheduling by the client. These projects are scheduled for fiscal 2004.
- f. Long-term notes include shareholder loans and accounts payables due to related parties previously recorded as current liabilities. This amount increased by \$60,224 due to a shareholder loan in Wavefront Energy. In connection with the Acquisition, these amounts have been reclassified (See Wavefront Energy's Quarterly Report for further details).

Item 2. Summary of related party transactions.

Expenses in the form of wages, employee benefits, contract employees and consultants, paid to insiders and related parties, during the quarter totalled \$71,500 (2002 - \$73,200), of which the named executive received \$37,500 in compensation and other compensation of \$1,500 for the three-month reporting period. The amounts were paid as part of the normal course of business and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. The Corporation does not maintain any employment contracts.

Insiders of the Corporation subscribed for \$137,000 to a non-brokered private placement of Wavefront Energy. The private placement was for 270,000 units at \$0.50 per unit, each unit consisting of one Wavefront Energy common share and one half of one share purchase warrant, each full share purchase warrant exercisable at \$1.00 for 1 year from the date of closing.

During the three-month period ended November 30, 2003, the Corporation has accrued interest of \$8,851 relating to promissory notes held by significant shareholders, a company controlled by a shareholder of the Corporation, and a related party to an insider of Wavefront Energy. The promissory notes and accounts payable owed by the Corporation to the shareholders amount to \$529,704, of which \$294,413 are owed to insiders. No interest payments were paid or are planned and interest will continue to accrue.

Item 3. Summary of securities issued and options granted during reporting period.

a) Summary of securities issued during the period.

Date of Issue	Security	Type of Issue	No. of Shares	Total Proceeds	Consideration	Commission Paid
Sept. 30 '03	Common shares	Acquisition of PE-TECH	14,130,432	N/A	Deemed \$0.65 per share	Nil
Sept. 30 '03	Common shares	Private placement	2,206,000	\$1,103,000	\$0.50	Nil

In connection with the PE-TECH Acquisition, on September 30, 2003 the Corporation issued 14,140,432 common shares to the shareholders of PE-TECH Inc.

The Corporation also closed a non-brokered private placement for a total of 2,206,000 units, each unit comprised of one common shares and one-half of a non-transferable share purchase warrant, in the capital stock of the Corporation at a price of \$0.50 per unit to net the Corporation an aggregate of \$1,103,000 on September 30, 2003. Each one whole share purchase warrant entitles the investors to purchase one additional common share of the Corporation for a period of one year from the date of grant at a price \$1.00 per share.

b) Summary of options granted.

Date of Grant	Number of Shares	Optionee	Exercise Price	Expiry Date
Sept. 30 '03	350,000	Brett C. Davidson	\$0.50	Sept. 30 '08
Sept. 30 '03	250,000	D. Brad Paterson	\$0.50	Sept. 30 '08
Sept. 30 '03	150,000	Roger Kazanowski	\$0.50	Sept. 30 '08
Sept. 30 '03	240,000	Employees, as a group	\$0.50	Sept. 30 '08
Sept. 30 '03	150,000	All other holders, as a group	\$0.50	Sept. 30 '08
Nov. 30 '03	75,000	Brett C. Davidson	\$0.55	Nov. 30 '08
Nov. 30 '03	50,000	Steve Percy	\$0.55	Nov. 30 '08
Nov. 30 '03	65,000	Employees, as a group	\$0.55	Nov. 30 '08
Nov. 30 '03	<u>220,000</u>	All other holders, as a group	\$0.55	Nov. 30 '08
	1,550,000			

The Corporation has implemented a fixed plan whereby it has reserved 3,641,162 shares for issuance under the Plan.

Item 4. Summary of securities as at the end of the reporting period

a) Description of share capital.

Authorized Capital:

Unlimited common shares

Issued and Outstanding:

Common shares 20,388,738 \$ 4,134,539

b) Summary of options, warrants, and convertible securities outstanding at the end of the reporting period.

Date Granted	Expiry date	Number of shares purchase warrants	Price per share
April 3 '02	December 30 '03	480,087	\$1.00
April 18 '02	December 30 '03	1,135,391	\$1.00
May 13 '02	December 30 '03	466,504	\$1.00
September 30 '03	September 30 '04	<u>1,103,000</u>	\$1.00
		3,184,982	

In connection with the PE-TECH Acquisition, on September 30, 2003 the Corporation issued 2,081,982 warrants (originally set to expire one year from the date of grant) to purchase common shares of the Corporation at a price of \$1.00 per share, on or before December 30, 2003. Subsequent to the reporting the Corporation applied for price reduction of the 2,081,982 December 30, 2003 warrants and an extension to April 2004. Such application was denied and the December 30, 2003 warrants expired unexercised.

c) Summary of shares in escrow or subject to a pooling agreement:

The following is a summary of the escrow and pooled shares of the Corporation prior to the PE-TECH Acquisition and reverse takeover:

24,225 (56,250 escrow shares released)
600,000 escrowed earnout shares

The following is a summary of the escrow and pooled shares of the subsequent to the PE-TECH Acquisition and reverse takeover:

8,351,486 shares subject to TSX Venture Exchange value escrow agreement
1,326,734 seed shares subject to similar escrow restrictions
9,678,220 total escrow shares (967,882 share released)

Item 5. Directors:

Brett C. Davidson
Roger Kazanowski
Denny Minano
D. Brad Paterson
Steve Percy

Wavefront Energy and Environmental Services Inc.

Quarterly Report
For Period Ended November 30, 2003

Schedule C: Management Discussion and Analysis

Item 1. Description of Business.

The principal business of the Corporation is the development and commercialization of innovative technologies for fluid flow optimization and monitoring processes in both the environmental and energy sectors. To that end, the Issuer operates two distinct business units in both sectors, Integrated Monitoring and *Pressure Pulse Technology* ("PPT").

Pressure Pulse Technology

A key component of the Issuer's future includes, but is not limited to, its intellectual property of PPT. The Company's PPT has been demonstrated to increase secondary oil recovery and thereby improving energy security. Within the environmental sector, PPT has broad application in the accelerated recovery and improved in-ground treatment of groundwater contaminants, thereby reducing the attendant liabilities associated with the contaminated site. To the best of the Issuer's knowledge, no other company in the world, except Wavefront and its subsidiaries, offers equipment and services that incorporates PPT for the petroleum and environmental sectors.

PPT is a proven injection technology for enhanced fluid flow in natural and man made porous media. The major applications of PPT are for improving oil recovery, and for the remediation of contaminated groundwater. However, PPT is not a stand-alone remedy: it is an enabling technology that improves the performance of other systems, such as water injectors (for use in improved oil recovery, optimised pump-and-treat systems, etc.), the placement of acids for single well reservoir stimulation, and *in situ* environmental remedies.

PPT – How Does PPT Work?

PPT is a fluid flow technology that works in porous media, including sedimentary soils and fractured rock. Implemented optimally for a given porous media, PPT generates a fluid pulse with a sharp rise time but a longer decay time. The fluid pulse causes a momentary elastic dilative response of the porous media. The dilation of the porous matrix now allows fluid to move through larger pore throats and reduces the incidence of preferential flow paths. When the porous media elastically contracts to its original state, there exists a higher pressure in the pore space. In this instance PPT not only allows fluids to be injected more efficiently, but the higher pressure in the formation couples to greater flow through the media.

Energy Sector Application of *Pressure Pulse Technology*

PPT has been demonstrated to lead to greater oil recovery, greater fluid injection and conformance. While results to date in Canada and Germany have led to increased recovery in heavy oil, management believes that PPT will have greater impact in lighter oils. When fully field implemented globally, management believes that oil producers will benefit from PPT, and that, among other things, PPT will lead to a meaningful increase in the overall oil recovery. This has been demonstrated in the Issuer's most recent waterflood results undertaken in with Royal Dutch Shell in Germany in 2002, and which were formally presented on October 21, 2003. The results showed that, on average, water injectivity increased by 30%. Management feels this is significant because if more fluid can be injected during secondary oil recovery by waterflooding then, at some point, more fluid must be produced by the production wells. These same benefits are applicable to short-term single well workovers that involve chemical injections.

Implications to the oil industry of properly executed *Pressure Pulse Technology* include the following:

1. Field life is prolonged with more booked reserves;
2. Fields that are largely depleted can be subjected to another production cycle;
3. Oil is produced faster, and fewer wells are required for the same oil or better production; and
4. Improved injectivity for both water injectors and water disposal wells.

Environmental Sector Application of *Pressure Pulse Technology*

PPT has also been successfully implemented in Canada and the United State for environmental applications. Many of the challenges encountered in groundwater remediation can be overcome through their application of certain types of dynamic energy. By instituting a PPT program, the Issuer is able to enhance the mobility of liquids, including viscous Non-Aqueous Phase Liquids (NAPLS) such as coal tar at manufactured gas plants sites, volatiles (i.e. Trichloroethylene or TCE), bio-enhancement and chemical treatment remedies, surfactants, etc. Other applications include optimising the performance of existing pump-and-treat, and dual phase extraction systems. Management believes PPT will expedite remedial processes, reducing long-term risks and obligations, and allowing for earlier exit strategies from contaminated sites.

The *Environmental Technology Verification ("ETV")* program has provided validation and independent verification of environmental technology performance claims of PPT. This initiative has been developed and carried out by the federal government of Canada to promote the commercialization of new environmental technologies into the market place and thus provided industry with the tools to address environmental challenges efficiently, effectively and economically. The Issuer was awarded the ETV Certificate at the Americana Conference on March 28, 2001 by the Canadian government's Minister of the Environment, the Honorable David Anderson. The ETV Certificate noted that PPT provided an increase in the system wide Light Non-Aqueous Phase Liquid ("LNAPL") recovery rate by at least 250% relative to pre-existing conditions.

Item 2. Operations and Financial Condition.

(a) Sales

Many of the current and pending PPT pilot projects are the result of sales efforts from 2001-2002. The sales cycle with regards to PPT is averaging 18 months from first discussions with a client to implementation. With greater environmental customer acceptance of the technology, this will decrease and has been as short as two months. In the oilfield monitoring sector, the sales cycle is approximately 4-6 months.

For fiscal 2004, it is expected that revenues will remain flat, as the Corporation has shifted its focus from integrated monitoring products to PPT. To better leverage the Corporation's PPT technology and accelerate market penetration, efforts will also be focused on establishing relationships with large services companies in both the energy and environmental sectors.

The Corporation expects that the environmental sector will be more readily accepted in the very near term, primarily because companies in this area are managing an environmental and financial liability as opposed to a large asset, as in the oil sector. The Corporation is continuing to work on gaining acceptance of PPT and gaining market share of integrated monitoring services within the oil sector with the use of both Corporation executives and the Calgary sales office.

For reporting purposes, the Corporation manages its operations based on the industry the products and services are provided: Prism Production Technologies Inc. reflect operation in the energy sector and Wavefront Environmental Services Inc. reflects operation in the environmental sector. Sales are recognized on a project completion basis for integrated monitor products and as per contract terms for PPT services.

(b) Operating Costs

As the Corporation focuses on the advancement of PPT, these costs will continue and will likely increase. Research and Development, Travel and Promotion, Consultants Wages and Depreciation and Amortization will increase as resources are focused to assist with sales, design and implementation of PPT systems within both the environmental and energy sectors. Other operating expenses should remain relatively stable as they relate to the infrastructure the Corporation has already put in place.

(c) Transactions with related parties

Schedule "B" of this Quarterly Report outlines the transactions made with related parties for the reporting period ended November 30, 2003. These transactions were made in the normal course of business and were measured at the exchanged amounts, which were agreed to by the related parties.

Insiders of the Corporation subscribed for \$137,000 to a non-brokered private placement of Wavefront Energy. The private placement was for 270,000 units at \$0.50 per unit, each unit consisting of one Wavefront Energy common share and one half of one share purchase warrant, each full share purchase warrant exercisable at \$1.00 for 1 year from the date of closing.

(d) Future income tax recovery

The future income tax recovery of \$1,495 (2002 – \$85,916) relates to the expense associated with the amortization of the goodwill and intangible assets associated with the acquisition of the non-controlling interest of the Corporation's subsidiaries.

Investor Relations Activity

Investor relations' activities were limited to the dissemination of news releases and presentations by senior executives to the financial institutions and analysts. Other investment relations activities relate to the placement of an advertisement in the Gold Stock Investor, published by the Cambridge House, and an email broadcast contracted through by KCREW Communications to an estimated 60,000 investors.

Natural Resource Properties

The Corporation has no rights to natural resources or any property claims. However, South Mountain Resources Inc., a wholly owned subsidiary of the Corporation, was incorporated for the purpose of participating in joint venture oil field projects and/or to acquire oil field properties that are considered unprofitable or marginal, where PPT can be utilized to rejuvenate and/or increase production, making the field a profitable resource. To date, South Mountain Resources remains inactive while the Corporation advances PPT and assesses potential oil field projects.

Item 3. Subsequent Events.

- (i) Subsequent to the reporting period, the Corporation entered into an agreement with Leede Financial Markets Inc. ("Leede") to act as its Agent to raise up to \$2,000,000 by way of a short form offering document and a concurrent brokered private placement with accredited investors. The Corporation, will offer up to 4,761,905 million units at a price of \$0.42 per unit. Each unit will consist of one Common Share and one-half of one non-transferable share purchase warrant (the "Warrant"). Each whole Warrant will entitle the holder thereof to acquire one additional Common Share for a period of one (1) year at a price of \$0.60 or such price as will be determined in accordance with TSX Venture Exchange.

Leede, as the Agent, will be paid a cash commission of 8% on the gross proceeds, and an Agent's option to purchase an amount of common shares equal to 10% of the units sold at a price of \$0.60 per share for a period of two (2) years plus a corporate finance fee of \$15,000 plus GST.

- (ii) Subsequent to the reporting period, the Corporation applied to the TSX Venture Exchange for the approval of a price reduction and extension of the expiry period to April 1, 2004 of the 2,081,983 share purchase warrants that were issued to the shareholders of PE-TECH. The application was declined and the 2,081,983 share purchase warrants expired unexercised on December 31, 2003.
- (iii) Subsequent to the reporting period, the Corporation was awarded both environmental pulsing and oilfield monitoring contracts, in Canada, United States and Venezuela, totaling \$219,802. The work relating to these projects will be completed in the second and third quarters of fiscal 2004.

Item 4. Financings, principal purposed and milestones.

The Corporation's milestones related to the manufacturing of up to two additional oil field PPT systems, to two additional environmental PPT systems, with five additional downhole environmental tool components. It is expected that the one development and re-development of the downhole components will be fully deployed by the fourth quarter of the fiscal year at an estimated capital cost of \$450,000. The capital costs of these systems are anticipated to come from the above noted short form offering document and a concurrent brokered private placement financing.

The Corporation also believes that it will fully deploy several PPT oil field system and all environmental systems by the end of this fiscal year.

The Corporation will also be focusing on fiber optic integrated monitoring technologies for the energy sector.

Item 5. Liquidity and solvency

Cash flow from operations as at the end of the reporting period amounted to \$312,144. This is an increase in the inflow of cash from operations of \$(490,775) from the prior year's comparative period, primarily due to the closing of the Acquisition of PE-TECH, and private placement and the consolidation of Wavefront Energy. Capital expenditures for the three months totaled \$53,727. Of this amount \$37,403 was for equipment for pressure pulsing systems.

As at December 31, 2003, the Corporation had negative working capital of \$511,809 compared to negative working capital of \$668,874 at the end of fiscal year 2003. The increase in working capital is a result of the completed Acquisition, the related financing and the reclassification of short-term notes and certain accounts payable to long-term debt. The Corporation has long-term debt of \$529,704 relating to \$482,486 of loans and \$47,218 of payables owing to principal shareholders.

As at December 31, 2003, the bank indebtedness was \$100,366 relating to a revolving credit facility of an operating subsidiary, which is secured by a principal shareholder. The credit facilities of the Corporation and its subsidiaries as at the end of the quarter include revolving credit facilities of \$250,000, of which \$150,000 has not been accessed.

The Corporations future liquidity and solvency will be directly impacted by the Corporation's ability to close the short form and concurrent private placement financing noted above.

Given the large proportion of direct materials required in implementing integrated monitoring projects, the Corporation established a policy of requiring clients to provide a deposit upon execution of a purchase order, allowance for expenditure or contract. This assisted the Corporation in better managing its cash flow and allowed it to continue operations through the 2002 / 2003 monitoring products and services seasons.

As at January 19, 2003, the Corporation had \$41,436 in cash and accounts receivable of \$93,586. Monthly expenses for the Corporation have been reduced and are estimated at \$130,000. The forthcoming reporting period should represent lower monitoring activities and revenues for the Corporation as resources are allocated to activities relating to the advancement of Pressure Pulsing Technology.

The solvency of the Corporation is directly related to its ability to continue to generate and increase the cash generated from operations or obtain loans from Wavefront Energy or obtain conventional or further loans from its Board of Directors. There is no guarantee that any of these alternatives will occur or continue to occur.