

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

ISSUER DETAILS:

Name of Issuer: Wavefront Energy and Environmental Services Inc.	For Quarter Ended: May 31, 2004	Date of Report: Y M D 04 07 30
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

July 27, 2004
DATE SIGNED

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

July 27, 2004
DATE SIGNED

Wavefront Energy and Environmental Services Inc.

Quarterly Report
For Period Ended May 31, 2004

Schedule A: Financial Information

See Financial Statements for the nine (9) months ended May 31, 2004 attached to, and forming part of, this Quarterly Report and Schedules B and C for further discussion and analysis. The Financial Statements for May 31, 2004 were prepared by management and have not been reviewed by the Corporation's auditors, Deloitte & Touche.

Schedule B: Supplementary Information

Item 1. Analysis of expenses and deferred costs.

The following discussion and comparisons of financial results are between the nine months of Wavefront Energy and Environmental Services Inc. ("Wavefront Energy") and the corresponding nine months for PE-TECH Inc. ("PE-TECH") in fiscal 2003.

- a. Revenue decreased to \$ 409,827 (2003 - \$ 2,010,469) as a result of a specialty, one time project in 2003, the delay of projects to next year and the focusing of efforts on promotion of Pressure Pulsing Technology (PPT).

Other income increased by 410% to \$ 78,221 (2003 - \$ 19,037). This income relates to work on pilot and research projects in PPT. Revenues for this type of work will continue as the Corporation continues to focus its efforts in PPT and as other projects are completed in the fourth quarter. Expenses related to these pilot projects are recorded in research and development expenses.

Cost of goods sold of \$ 237,605 represented 71% of sales compared to 43% of sales for the previous year (2003 - \$ 872,581). This increase, as a percentage, is due to higher margin, specialty monitoring projects completed in 2003. While the projects in 2004 were more common, lower dollar values, and thus had lower margins. Also some additional costs arose on projects, which were not originally budgeted for, and were required to complete the project.

- b. The decrease in operating expenses by \$ 235,803 to \$ 1,544,337 (2003 - \$ 1,780,140) were congruent with budgeted expectations and is a result of the following:
 - i. Wage expense decreased by \$ 248,904 to \$ 530,072 (2003 - \$ 778,976) principally due to the allocations of direct labour to the cost of goods sold (\$ 66,655), work in progress (\$46,902), assets under construction (\$ 125,459) and research and development (\$74,744). This was offset by a slight increase in wage expense due to an additional staff member and increases in the average salary amount. As of September 1, 2003, the accrual related to the seconded person, from a major oil company, had ended and no more expenses will be accrued relating to this secondment. This reduced expenses in the period by \$ 90,000. Average number of full time employees during the year was 14 (2003 - 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 one new employees salary for up to 12 months.
 - ii. Professional expense decreased by \$ 14,644 to \$ 165,625 (2003 - \$ 180,269). 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 licensing of PPT and compliance issues in foreign jurisdictions.

- iii. Office expense decreased by \$ 36,059 to \$ 223,181 (2003 - \$ 259,240). 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 (\$ 86,407) and insurance (inclusive of Directors and Officers Liability Insurance and General Insurance - \$ 72,592), with the remaining relating to the cost of operating the Corporation's offices.
- iv. Research and Development expense increased by \$ 74,170 to \$ 123,473 (2003 - \$ 49,303) due to the environmental PPT pilot projects which were completed in the quarter, while last year was only costs related to the research and development group.
- v. Travel and Promotion expense decreased by \$ 38,526 to \$ 95,658 (2003 - \$ 134,184). The 2003 expense included approximately \$ 8,100 in travel costs related to projects, which are now recorded in cost of goods sold. The expense in the third quarter 2004 increased as the company took part in a number of trade show in the U.S.A. These costs will remain constant in the fourth quarter with more trade shows and promotion. Travel costs relate to travelling associated with marketing initiatives to increase the understanding and sales of PPT to U.S.A. 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 remained relatively constant at \$ 100,495 (2003 - \$ 101,119) due to the impairment of goodwill and intangible assets, which was done at the end of fiscal 2002 (Nov 30, 2002) and is offset by the addition of new equipment at the beginning of the year. The fourth quarter expense will increase with the completion of the building of more pulsing equipment.
- vii. Consultant expense decreased by \$ 81,422 to \$ 88,423 (2003 - \$ 169,845) due to the reduction of the number of consultants and their rates. These costs relate to sales and will likely increase as the organization continues to promote the PPT and the Corporation.
- viii. Vehicle expense remained constant at \$ 54,925 (2003 - \$ 53,752). While direct project costs are now recorded to cost of goods sold, \$10,005 in warranty costs, for fuel and rental vehicles, was included in the third quarter. These warranty costs were a one-time expense. The remaining costs relate to sales, general shop and overhead vehicle expenses.
- ix. Repairs and Maintenance expense increased by \$ 7,439 to \$ 23,346 (2003 - \$ 15,907). These costs relate to the repair and maintenance of equipment and tools and will increase with the increased use of equipment. The third quarter included a charge of \$5,483 for calibrating of equipment, which is not a regular expense.
- x. Interest on Notes Payable expense remained constant at \$ 38,341 (2003 - \$ 37,534). 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 \$ 97,499 in the period. There was no expense in 2003 as PE-TECH was not a publicly listed company. The majority of this expense occurred in the second quarter and was related to the financing the Corporation completed at the end of the third quarter. These fees will continue, in part, depending upon the number of filing applications made.

- c. Accounts payable and accrued liabilities in the amount of \$ 946,481 (2003 - \$ 720,602) are comprised of accounts payable of \$ 669,964 (2003 - \$ 382,664) and accrued liabilities of \$ 276,517 (2003 - \$ 337,938). Accounts Payable includes an invoice for \$ 112,662, which was in dispute. During the second quarter, the dispute was resolved and a partial credit was issued and a payment has subsequently been made in the fourth quarter. The remaining accounts payable relate to overheads (\$215,736), manufacture of pulsing equipment (\$ 98,703), ongoing monitoring work (\$ 70,909), ongoing pulsing work (\$ 10,431), professional fees related to the Acquisition, financing and audit (\$123,825), and other professional fees (\$ 50,953). 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 interest (\$ 52,416) and payroll accruals (\$ 84,218).
- d. Unearned Revenue of \$ 139,368 is made up of monitoring and PPT projects for which payment has been received but which have not been completed due to rescheduling by the client. Some of these projects are scheduled for completion and revenue will be recognized in the fourth quarter and in the first quarter of 2005.
- e. Notes Payable is a short-term loan from a non-arms length party, which was made during the last quarter. The aggregate note amount is \$100,333. The note is unsecured, bears 8.5% interest and is repayable 30 days after demand.
- 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 \$ 211,896 (2002 - \$ 144,600), of which the named executive received \$ 112,500 in compensation and other compensation of \$ 4,500 for the nine-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. Also during the period board of directors fees of \$6,051 were expensed for three board members who are non-salaried officers of the company.

During this quarter, insiders of the Corporation subscribed for \$188,566 to a non-brokered private placement of Wavefront Energy. The private placement was done in connection with a short form offering. The private placement was for 538,760 units at \$0.35 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 \$0.55 for one year from the date of closing of May 31, 2004.

A non-arms length party made short term loans to the Corporation in the amounts of \$66,080 (April 12, 2004) and \$34,253 (May 14, 2004) (See section e in Item 1)

During the nine-month period ended May 31, 2004, the Corporation has accrued interest of \$ 26,550 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 \$ 629,458, of which \$ 467,286 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.**Summary of options granted.**

Date of Grant	Number of Shares	Optionee	Exercise Price	Expiry Date
Apr 30 '04	250,000	Brett C. Davidson	\$0.44	Apr 30' 09
Apr 30 '04	35,000	Roger Kazanowski	\$0.44	Apr 30' 09
Apr 30 '04	35,000	Dennis Minano	\$0.44	Apr 30' 09
Apr 30 '04	150,000	D. Brad Paterson	\$0.44	Apr 30' 09
Apr 30 '04	35,000	Steve Percy	\$0.44	Apr 30' 09
Apr 30 '04	7,500	Employees, as a group	\$0.44	Apr 30' 09
Apr 30 '04	<u>75,000</u>	All other holders, as a group	\$0.44	Apr 30' 09
	587,500			

The Corporation has implemented a fixed plan whereby it has reserved 3,641,162 shares for issuance under the Plan. All stock options issued under the plan vest, at a minimum, equally over an 18 month period.

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 23,129,740 \$ 4,995,102

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
May 31 '04	May 31 '05	1,590,816	\$0.55
September 30 '03	September 30 '04	<u>1,103,000</u>	\$1.00
		2,693,816	

In connection with the PE-TECH Acquisition, on September 30, 2003 the Corporation exchanged 2,081,982 PE-TECH warrants for warrants to purchase common shares of the Corporation at a price of \$1.00 per share (originally set to expire at various dates from April to May 2003). With the closing of the PE-TECH acquisition, these warrants were extended to December 30, 2003. Subsequent to the reporting the Corporation applied for a price reduction of the 2,081,982, December 30, 2003, warrants and an extension to April 2004. Such application was denied and the 2,081,982 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 subsequent to the PE-TECH Acquisition and reverse takeover:

9,678,220 shares subject to TSX Venture Exchange value escrow agreement*
323,078 seed shares subject to similar escrow restrictions
10,001,298 total restricted shares
* 1,451,733 released during the 3rd quarter
(2,419,555 in total have been released).

Item 5. Directors:

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

Wavefront Energy and Environmental Services Inc.

Quarterly Report
For Period Ended May 31, 2004

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 optimizing 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 calendar 2003. 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 the remainder of 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. Subsequent to the quarter the Corporation has been awarded monitoring projects with a value of approximately \$520,000, which is scheduled for the first quarter of fiscal 2005. Also subsequent to the quarter the company signed a licensing agreement with Halliburton to promote PPT in the energy sector.

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: Wavefront Reservoir Technologies Ltd. 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 as PPT gains market penetration. 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 May 31, 2004. 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.

During this quarter, insiders of the Corporation subscribed for \$188,566 to a non-brokered private placement of Wavefront Energy. A portion of the subscription proceeds, \$75,000, was advanced to the Corporation in the prior reporting period. The private placement was done in connection with a short form offering. The private placement was for 538,760 units at \$0.35 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 \$0.55 for one year from the date of closing of May 31, 2004. The Units and any shares issued upon the exercise of warrants will be subject to a four-month hold period expiring on September 30, 2004.

As at the end of the reporting period, ending May 31, 2004, a non-arms length party had advanced the Corporation \$100,333. These amounts were advanced under Promissory Notes, are unsecured, bear an 8.5% interest and are repayable 30 days after demand.

(d) Future income tax recovery

The future income tax recovery of \$6,728 (2003 – \$91,235) 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

Due to the restrictions placed on the Corporation, investor relations' activities were limited to the dissemination of news releases and presentations by senior executives to the financial institutions and analysts. During the period, the Corporation took part in investor presentations in Houston and San Antonio. The Corporation also engaged the investor relations firm, Barry Kaplan Associates of New Jersey.

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 period the Corporation and Halliburton's Energy Services Group (NYSE: HAL) entered into multi-year collaboration and licensing agreements to jointly research, develop, and implement PPT systems.

The license agreement will provide Halliburton with the nonexclusive license in the United States and Canada and an exclusive license for all other parts of the world for commercialization of Wavefront's patented PPT processes.

- (ii) The Corporation was awarded a monitoring project, with a value of approximately \$520,000, from a single client.

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. The designing and manufacturing of these systems was started in the third quarter and will continue in the fourth quarter. At the end of the quarter, and in advance of closing the Short Form Offering, \$204,182 of the expected \$450,000 in capital costs for these systems had been occurred.

The Corporation was working toward having two additional PPT oilfield system manufactured for deployment, however, due to the agreements with Halliburton (See subsequent events) this will be delayed as the company works jointly with Halliburton for large-scale commercialization.

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 \$ (216,084). This is an decrease in the inflow of cash from operations of \$115,955 from the prior year's comparative period of \$ (100,129), primarily due to the closing of the Acquisition of PE-TECH, and private placement and the consolidation of Wavefront Energy. Capital expenditures for the nine months totalled \$252,662. Of this amount \$204,182 was for equipment for pressure pulsing systems.

As at June 30, 2004, the Corporation had negative working capital of \$616,749 compared to negative working capital of \$668,874 at the end of fiscal year 2003. The working capital is relatively the same due to the short form offering which was completed at May 31, 2004. 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 June 30, 2004, the bank indebtedness was \$238,556 relating to the revolving credit facilities of the subsidiaries, which is secured by principal shareholders. The credit facilities of the Corporation and its subsidiaries as at the end of the quarter include revolving credit facilities of \$250,000.

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 July 19, 2004, the Corporation had \$33,271 in cash and accounts receivable of \$200,949. Monthly expenses for the Corporation have been reduced and are estimated at \$130,000. The forthcoming reporting period should represent a reduction of 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.