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**Wavefront Energy and Environmental Services Inc.**

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|-------------------------------------|------------------------------|
| <input type="checkbox"/>            | <b>Fourth Quarter Report</b> |
| <input type="checkbox"/>            | For the year                 |
| <input type="checkbox"/>            | ended                        |
| <input checked="" type="checkbox"/> | <b>August 31, 2005</b>       |

*The following discussion and analysis of financial results should be read in conjunction with the audited financial statements and the accompanying notes for the year ended August 31, 2005 and is based on information available to December 23<sup>rd</sup>, 2005. Additional information on Wavefront Energy and Environmental Services Inc.'s (the "Corporation" or "Wavefront") is available on SEDAR at [www.sedar.com](http://www.sedar.com).*



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## Wavefront Energy and Environmental Services Inc.

Management's Discussion and Analysis  
For the year ended August 31, 2005

### Forward-looking Information

*Statements in this Management Discussion and Analysis relating to matters that are not historical facts are forward-looking statements. Such forward-looking statements involve known and unknown risks and uncertainties which may cause the actual results, performance or achievements of the Corporation to be materially different from any future results implied by such forward-looking statements. Such factors include fluctuations in acceptance rates of Wavefront's DeepWave<sup>SM</sup> (formerly known as Pressure Pulsing Technology) technology, demand for products and services, fluctuations in the market for oil and gas related products and services, the ability of Wavefront to attract and maintain key personnel, technology changes, global political and economic conditions, and other factors that are described in further detail in Wavefront's continuous disclosure filings.*

### Management's Responsibility

The management of the Corporation is responsible for the accuracy of the information disclosed in the Management Discussion and Analysis. The interim and annual Management Discussion and Analysis are also reviewed and approved by the Audit Committee of the Corporation's board of directors. This Management Discussion and Analysis contains information available to December 23<sup>rd</sup>, 2005.

### Description of Business

The principal business of Wavefront Energy and Environmental Services Inc. ("Wavefront" or "the Corporation") is the development and commercialization of innovative technologies for fluid flow optimization and monitoring processes in both the environmental and energy sectors.

#### DeepWave<sup>SM</sup> Technology

At the core of Wavefront's strategic value proposition is its patented DeepWave<sup>SM</sup> technology (formerly known and marketed as Pressure Pulsing Technology or PPT). DeepWave<sup>SM</sup> is an injection technology / methodology that dramatically improves the flow rate and distribution of liquids in the ground.

DeepWave<sup>SM</sup> has been proven to be an effective method of achieving oil production revitalization through the following techniques:

#### ***Short-term Well Intervention Applications***

- Well intervention (single wells)
- Matrix Acid – typical near wellbore cleanup
- Remedial sand control
- Acid Inhibition treatments
- Paraffin removal

#### ***Long-term Stimulation Applications***

- Add-on to water injectors for improved injectivity rates, sweep efficiency, and reservoir conformance
- Add-on to water disposal wells
- Liquid CO<sub>2</sub> Injection
- Surfactant and Polymer floods

DeepWave<sup>SM</sup> has been successfully applied in heavy and light oil, as well as in ground water. The method of implementation or system utilized depends upon among other things the geology and the fluid viscosity. The DeepWave<sup>SM</sup> system must be specific to suit the geological situation. DeepWave<sup>SM</sup> can be modified to increase injection and production flow rates, production well efficiency, and oil recovery ratios in a wide variety of configurations.



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## Wavefront Energy and Environmental Services Inc.

Environmentally, groundwater contamination came to the forefront in the early 1980s. Since the physics of fluid flow is similar in shallow groundwater conditions to that of the oil industry, Wavefront has diversified its client base and utilizes a scaled-down DeepWave<sup>SM</sup> system for ground water remediation. DeepWave<sup>SM</sup> has also been verified as an environmental remedial strategy by Environment and Industry Canada. The following are some applications of DeepWave<sup>SM</sup> in the environmental sector:

- Enhancement of “pump-and-treat” systems to extract the contaminant; a similar methodology to an oilfield waterflood.
- Improved injection of “*in situ*” remedies, such as the injection of biological, chemical or oxidant agents into the ground to neutralize the ground water contaminant.
- Rehabilitation of water wells.

The optimization of DeepWave<sup>SM</sup> is dependant upon, among other things, the frequency and amplitude of the fluid waveform created. Thus, part of Wavefront’s value proposition is to monitor and model, and optimize DeepWave<sup>SM</sup> outcomes. Wavefront’s intellectual property strategy is to maintain absolute control over its DeepWave<sup>SM</sup> modeling software known as the “DeepWave<sup>SM</sup> Analyzer”. The software enables Wavefront to evaluate reservoir characteristics and provides key insights into the optimized waveform required for the desired outcome in any given geological setting.

### Energy Sector Application of DeepWave<sup>SM</sup> Technology

Given the Corporation’s limited resources and challenges in implementing a global technology, Wavefront entered into Technology Licensing and Collaboration Agreements with Halliburton Energy Services Inc (“Halliburton”). The License Agreement provides Halliburton non-exclusive rights in Canada and the United States to market DeepWave<sup>SM</sup> and exclusive rights outside of Canada and the United States. In consideration of the exclusive component of the Licensing Agreement, Wavefront entered into a Collaboration Agreement which allows both parties to jointly research, develop and manufacture DeepWave<sup>SM</sup> systems for the improvement or enhancement of oil recovery, oil well stimulation and oilfield disposal methodologies. The Halliburton agreements will assist Wavefront in the following:

- Expedite the adoption rate of DeepWave<sup>SM</sup> by utilizing Halliburton’s sales networks.
- Eliminate potential DeepWave<sup>SM</sup> system manufacturing and implementation bottlenecks.
- Provide the Corporation and DeepWave<sup>SM</sup> with greater credibility.
- Through the Collaboration Agreement, expand the markets for DeepWave<sup>SM</sup> by having different systems that can operate in different geological environments.

Throughout the industry, down hole monitoring has emerged as a significant tool for reservoir surveillance so as to reduce costs and to maximize oil recovery for producers. To optimize the implementation of DeepWave<sup>SM</sup>, Wavefront also monitors downhole data to ensure the proper waveform is created. As such, the Corporation developed downhole monitoring technologies to measure and monitor the types of waves created. In addition to providing monitoring products and services internally for DeepWave<sup>SM</sup>, the Corporation also serves, on a selected basis, external customers allowing them to increase production efficiencies by providing real time reservoir information.



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## Wavefront Energy and Environmental Services Inc.

Wavefront offers two types of monitoring systems: (i) permanent systems specifically designed for placement within the cemented well casing for continuous monitoring throughout the life of the well and (ii) reusable systems (production tubing and coil tubing). Additionally, these monitoring products are sold to monitor the frequency and amplitude of the pressure pulse created. The revenue from the well monitoring business has provided cash flows to allow Wavefront to attend to its infrastructure whilst marketing DeepWave<sup>SM</sup>.

With greater customer acceptance of the DeepWave<sup>SM</sup> technology, management is seeing the sales cycle for short-term, well intervention type jobs, dropping to weeks, and long-term waterflood type jobs ranging from one to six months. In the oilfield-monitoring sector, the sales cycle now can range from several weeks to several months.

### Environmental Sector Application of DeepWave<sup>SM</sup> Technology

With the negative net present value of environmental remediation projects and the long sales cycles, Wavefront, in parallel fashion, has also licensed to Environmental Resource Management ("ERM") non-exclusive rights to market DeepWave<sup>SM</sup> to the environmental sector. Wavefront also has two registered sales agents in the United States and one in Finland promoting the technology to the user sector. Utilization of licensing and securing outside agents has allowed Wavefront to gain market exposure for DeepWave<sup>SM</sup> while limiting the resources required to build a revenue stream from the environmental sector. The sales cycle of environmental remediation projects has approximated between three to six months.

### **Overall Performance**

In the prior year, the Corporation previously managed its business under two segments – energy and environmental. In the current year, the Corporation has reorganized its management and reporting structure and, as such, is no longer presenting its operational results on a segmented basis.

Fiscal 2005 was a year of change for Wavefront, which included a greater focus on the advancement and commercialization of DeepWave<sup>SM</sup>. The major developments occurring in 2005 included the following:

- Effective November 29, 2004 Wavefront was able to reduce liabilities by \$595,848 with the issuance of 2,090,694 shares at a deemed price of \$0.285 per share. Of the debt settled, \$458,430 was held by related parties.
- Wavefront secured a series of integrated monitoring jobs that resulted in the Corporation's recognizing total revenue of \$1,251,175.
- Wavefront acquired mineral rights in Milam County, Texas, and Rogers County, Oklahoma to "showcase" the DeepWave<sup>SM</sup> technology. The strategy of showcasing the technology in these locations provides Wavefront the opportunity to:
  - Demonstrate the efficacy of DeepWave<sup>SM</sup> with a large number of permanently installed systems.
  - Allow a site where clients, analysts and the media may have unencumbered access to observe DeepWave<sup>SM</sup> technology.
  - Provide ongoing results of the effectiveness of DeepWave<sup>SM</sup> technology to further support marketing efforts.
  - Increase the Corporation's revenue and asset base.



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## Wavefront Energy and Environmental Services Inc.

- Wavefront closed a non-brokered private placement for gross proceeds of \$539,416. Of the total proceeds, related parties subscribed for \$146,534 of the private placement.
- Wavefront secured a non-exclusive market and distribution agreement for DeepWave<sup>SM</sup> for ground water remediation with Stratum Environmental Engineering Company Oy of Helsinki, Finland.
- During the summer of 2005, Wavefront together with Halliburton, completed development of its first collaborative coiled tubing DeepWave<sup>SM</sup>.

### Revenues

Revenues for the year ended August 31, 2005 were \$1,334,284. This is an increase of \$814,314 over the comparative period in 2004 that recognized revenues of \$519,970. The increase in revenue resulted primarily from the securing of four monitoring contracts in Alberta that netted the Corporation \$1,171,100 in revenue. Additionally, DeepWave<sup>SM</sup> licensing revenue increased to \$83,109.

Geographically, \$1,230,408 (2004 – \$234,061) in revenue was generated in Canada, \$81,931 (2004 - \$179,859) was from the USA, and \$21,945 (2004 - \$60,359) was from Venezuela. The Corporation had no revenues from China (2004 - \$45,691).

Direct expenses related to revenue increased to \$860,427 (or 64.5% of gross revenue) compared to \$252,225 (or 48.5% of gross revenues) for fiscal 2004. This correlates to a decrease in gross profit margin to 35.5% from 51.5% that is due to several monitoring projects at lower than normal profit margins. The lower profit margins were a function of lower pricing associated with several large value monitoring projects. Such pricing allowed the Corporation to re-establish its monitoring revenue stream and market share.

### Operating Expenses

Operating expense for the period amounted to \$2,020,811, compared to \$1,821,540 in 2004. This increase of \$199,271 was principally a result of the following changes:

- An increase in “consultants” expense of \$76,033 that is solely related to the expenses associated with searching out, evaluating and acquiring mineral rights to showcase DeepWave<sup>SM</sup>. These expenses include the engagement of a geologist, landman and consultant based in Texas.
- A decrease in “professional fees” expense of \$218,492 that relates to fewer transactions with the TSX Venture Exchange (i.e., Fiscal 2004 saw the closing of the reverse take-over with PE-TECH, and the closing of a short form offering financing).
- A decrease in “listing and public company fees” expense of \$97,647 that relates to the president and chief financial officer providing investment relations services for the Corporation versus hiring consultants specifically for this task.
- A decrease in “office” expense of \$34,855 due to the elimination of a sales office in Calgary, Alberta and the reduction of office space in Cambridge, Ontario.
- A decrease of “travel and promotion” expense of \$31,369 that resulted from the elimination of the Calgary sales office.



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## Wavefront Energy and Environmental Services Inc.

- A decrease in the recovery of “research and development tax recovery” expense of \$483,218 relates to the recognition of a SR&ED refund in fiscal 2004. In the prior year the Corporation made SR&ED claims that resulted in cash refunds related to eligible expenditures that the Corporation incurred as a private Canadian controlled corporation prior to the reverse takeover in September 2003. In the current year, the Corporation recognized a small provincial refund related to expenditures made prior to becoming a reporting issuer. As the Corporation is no longer classified, as a private Canadian controlled corporation, future SR&ED claims will result in a tax credit versus a cash refund.

The changes in operating expenses are a result of re-focusing on the commercialization of the DeepWave<sup>SM</sup> technology, a move away from the seasonal and commodity based business of integrated monitoring. The Corporation’s focus on the DeepWave<sup>SM</sup> technology included greater support of Halliburton on the marketing of the technology and the development of a collaborative DeepWave<sup>SM</sup> system, and the acquisition of mineral rights to showcase DeepWave<sup>SM</sup>.

### Net Loss and Loss Per Share

The net loss for the year ended August 31, 2005 was \$1,607,731 (\$0.06 per share), compared to \$1,653,487 (\$0.08 per share) in 2004. The Corporation expects financial results to continue to improve, moving towards profitability, in the next fiscal year as DeepWave<sup>SM</sup> licensing revenues and oil production revenues from Rogers County are expected to increase, while operating costs are expected to remain relatively stable.

### Assets

Total assets decreased by \$619,275 to \$932,567, which was principally due to a reduction of accounts receivable by \$499,050 and a reduction in inventory by \$206,406. The decrease in both accounts receivable and inventory relates to work in progress that carried over from fiscal 2004, and the recording of the SR&ED receivable in 2004. Fiscal 2005 had no work in progress. Although cash remains low, the Corporation is carefully managing cash flow to ensure it will continue to meet its short-term cash requirements. During fiscal 2005, the Corporation benefited from short-term notes provided by related parties to assist with temporary cash shortfalls, the use of trade credit, and obtaining progress payments on work in progress.

### Liabilities

Total liabilities decreased by \$240,867 to \$1,580,903. This was principally due to the reduction of the “due to shareholders” by \$495,515 that resulted from the share-for-debt settlement, and the reduction of “accounts payable and accrued liabilities” by \$147,473 and “unearned revenue” by \$101,712. These decreases were offset, however, due to the Corporation receiving proceeds of \$450,607 on a non-brokered private placement, recorded as “advances on private placement”, that closed subsequent to year-end, effective September 1, 2005. In addition, due to the lower profit margins and a lack of equity financings, the Corporation fully utilized its lines of credit thus increasing “bank indebtedness” by \$63,789. The decreasing amounts in “accounts payable and accrued liabilities” and “unearned revenue” were due to the absence of monitoring projects carrying over to fiscal 2006 and the Corporation’s efforts to better manage its trade payables.



**Wavefront Energy and Environmental Services Inc.**

**Selected Annual Information**

The following table sets forth certain financial information for the Corporation for 2003 to 2005:

	<b>Year Ended August 31 2005 (12 months)</b>	Year Ended August 31 2004 (12 months)	Year Ended August 31 2003 (9 months) <sup>(2)</sup>
(In Canadian dollars, except share data) (1)			
Revenue	\$ 1,334,284	\$ 519,970	\$ 2,046,269
Loss From Operations	\$ 1,546,954	\$ 1,553,795	\$ 404,271
Net Loss	\$ 1,607,731	\$ 1,653,487	\$ 413,480
-Per common share - Basic and Diluted	\$ 0.06	\$ 0.08	\$ 0.03
Total Assets	\$ 932,567	\$ 1,551,842	\$ 1,078,386
Total Long Term Financial Liabilities	\$ 65,550	\$ 544,185	\$ 573,348
Dividends Declared	-	-	-
Weighted Average Shares Outstanding	25,250,710	20,558,552	14,140,432
Shares outstanding at Year End	27,998,341	23,562,422	14,140,432

(1) This financial data is prepared in accordance with Canadian GAAP

(2) Fiscal 2003 was 3 quarters due to change of year end to match public company fiscal year. Results are those of PE-TECH, which was a private company prior to the reverse take-over.

Although Wavefront has re-focused on the commercialization of DeepWave<sup>SM</sup>, its core strategic value proposition, much of the expertise required for monitoring crosses over into development of DeepWave<sup>SM</sup>. Monitoring projects have historically provided the Corporation with increased cashflow and have allowed it to maintain some infrastructure. However, the Corporation is an early stage company, with a technology that has yet to be fully adopted by industry. It is anticipated that as DeepWave<sup>SM</sup> gains greater commercial acceptance, the Corporation's financial picture will change accordingly.

Revenues of \$1,334,284 for 2005 approximated what was expected due to the return of monitoring projects and the increases in revenue from DeepWave<sup>SM</sup> licensing and project revenues. In order to attract the large monitoring projects and to re-establish Wavefront's market share, larger valued monitoring projects were priced at reduced profit margins.

Losses in 2005 were also inline with expectations due to the resources required to support the Halliburton coiled tubing collaboration and marketing initiatives. Furthermore, additional resources throughout the year were used in the search, analysis, selection and acquisition of oil properties to showcase DeepWave<sup>SM</sup>. Losses were minimized due to larger volumes, albeit at lower margins, of monitoring work and better management of operating costs. Similar losses in fiscal 2004 can be attributed to a lower volume of work with higher margins.

Total Assets at the end of 2005 were lower than 2004 due to lower inventory and accounts receivable, and the recognition of the SR&ED receivable in 2004. This is a result of having projects completed prior to the year-end. In addition, DeepWave<sup>SM</sup> systems that were under development last year were written off to research and development expense as they did not meet operating requirements. At August 31, 2004 accounts receivables and inventory levels increased related to the work in progress associated with the monitoring commitments for 2005, and the recognition of the SR&ED receivable in 2004.



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Total long-term financial liabilities continue to decrease as the Corporation did not enter into any new capital leases and many of the non-essential leases were not renewed. In addition, the Corporation settled the majority of the amounts due to shareholders and reduced both its unearned revenue and trade payables that correlate with projects completed prior to year-end.

**Summary of Quarterly Results**

	4th Qtr 2005 Aug 31 '05	3rd Qtr 2005 May 31 '05	2nd Qtr 2004 Feb 28 '05	1st Qtr 2004 Nov 30 '04
All amounts in Canadian dollars				
Revenue	\$ 123,387	\$ 469,616	\$ 419,170	\$ 322,111
Loss from Operations	\$ 452,468	\$ 392,249	\$ 317,808	\$ 384,429
Net Loss	\$ 447,248	\$ 400,202	\$ 376,067	\$ 384,214
- Per Share - Basic and Diluted	\$ 0.012	\$ 0.016	\$ 0.016	\$ 0.016

	4th Qtr 2004 Aug 31 '04	3rd Qtr 2004 May 31 '04	2nd Qtr 2004 Feb 28 '04	1st Qtr 2004 Nov 30 '03
Revenue	\$ 110,143	\$ 279,469	\$ 62,304	\$ 68,054
Loss from Operations	\$ 132,115	\$ 418,709	\$ 509,456	\$ 493,515
Net Loss	\$ 235,077	\$ 415,085	\$ 505,638	\$ 497,687
- Per Share - Basic and Diluted	\$ 0.006	\$ 0.021	\$ 0.026	\$ 0.027

(1) This Financial data has been prepared in accordance with Canadian GAAP

(2) Each quarters figures are for the three month period ending on the date listed

**Fourth Quarter 2005, for three months ended August 31, 2005**

*Revenue*

The revenues for the quarter came almost completely from DeepWave<sup>SM</sup> projects, related to licensing agreements the Corporation had entered into with Environmental Resources Management and Top Gun Sand and Pump Rentals (“Top Gun”). Costs of good sold related to increased licensing revenues associated with DeepWave<sup>SM</sup> were minimal.

*Net Loss*

The net loss for the quarter was \$447,248 (\$0.012 per share), an increase from the net loss of \$235,077 (\$0.006 per share) for the comparative period in 2004. The increase in the losses for the quarter is principally attributed to the recognition of “research and development tax recovery” of \$494,875 (i.e., an expense recovery) which was claimed under the Scientific Research and Experimental Development (“SR&ED”) program related to work on DeepWave<sup>SM</sup> completed in fiscal years 2002 and 2003. Offsetting this expense recovery was an increase in expense associated with hiring of consultants to acquire the Milam and Rogers County mineral rights.



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**Third Quarter 2005, for three months ended May 31, 2005**

*Revenues*

Revenues for the three months ended May 31, 2005 were \$469,616, an increase of 68% over the revenue of \$279,469 that was recognized for the comparative period in 2004. Revenues for the quarter were primarily generated from the sale of integrated monitoring products and services to an external customer in Alberta. The gross profit as a percentage of revenue was 14.8% for the quarter compared to 32.3% for the third quarter of 2004, due to lower margin projects as discussed previously. The trend to lower gross margins was reported in the Corporation's MD&A for the second quarter of 2005.

*Net Loss*

The net loss for the quarter was \$400,202 (\$0.02 per share), a marginal increase from the net loss of \$415,085 (\$0.02 per share) for comparative period in 2004. The relative unchanged results are primarily due to the increased resources being allocated to securing a working interest in an oilfield and efforts related to collaborating new and additional DeepWave<sup>SM</sup> system developments. These costs were, however, offset by the increase in sales.

**Second Quarter 2005, for three months ended February 28, 2005**

*Revenues*

Revenues for the three months ended February 28, 2005 were \$419,170, an increase of more than 5.7 times the revenue of \$62,304 that was reported for the comparative period in 2004. Revenues for the quarter were primarily generated from the sale of integrated monitoring products and services to two external customers in Alberta. The gross profit percentage of 41.7% for the quarter was lower than that for the comparative period of last year of 80.04% due to the increase in lower margin integrated monitoring sales in the Corporation's product mix.

*Net Loss*

The net loss for the quarter was \$376,067 (\$0.02 per share), a decrease from the net loss of \$509,456 (\$0.03 per share) for comparative period in 2004. The decrease in the net loss was due to the increase in sales and reduction of expenses.

**First Quarter 2005, for three months ended November 30, 2004**

*Revenues*

Revenues for the first quarter ended November 30, 2004 were \$322,111. This is an increase of more than 3.7 times over the comparative period in fiscal 2004 that recognized revenues of \$68,054. Revenues for the quarter ended November 30, 2004 were due to integrated monitoring programs starting earlier than anticipated over the winter season. Revenues in 2003 were lower than expected as the commercialization of many projects requiring integrated monitoring systems were delayed. Included in revenue is \$29,232 related to the licensing of DeepWave<sup>SM</sup> technology and pulsing equipment to ERM, a US-based environmental remediation company. In the comparative period for 2004, there was no environmental revenue included in sales.



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**Wavefront Energy and Environmental Services Inc.**

*Net Loss*

The net loss for the three month period ended November 30, 2004 was \$384,214 (\$0.02 per share) which is a 23% reduction compared to \$497,687 (\$0.03 per share) for the comparative period in fiscal 2004.

**Fourth Quarter 2004, for three months ended August 31, 2004**

*Revenue*

The revenues for the quarter came almost completely from DeepWave<sup>SM</sup> projects. A portion of the revenue relates to an agreement the Corporation had entered into with ERM to use the Corporation's DeepWave<sup>SM</sup> technology and equipment for a six-month period. The revenue for this agreement was recognized in the fourth quarter of 2004 and the first quarter of 2005.

Losses for the period were offset with the recognition of a "research and development tax recovery" of \$494,875 which was claimed under the SR&ED program related to work on DeepWave<sup>SM</sup> completed in fiscal years 2002 and 2003.

**Third Quarter 2004, for three months ended May 31, 2004**

Revenues were up \$217,435 compared to the second quarter of fiscal 2004 were but below expected levels due to monitoring projects being delayed until winter 2005. Cost of goods sold was higher than expected due to unexpected costs on a project during the quarter.

The Corporation completed an agreement with Halliburton's Energy Services Group for the joint research, development and commercialization of DeepWave<sup>SM</sup> systems, while at the same time worked on agreements with ERM and Top Gun. The latter agreements, announced during the quarter, provided the Corporation with licensing fees for the non-exclusive use of DeepWave<sup>SM</sup>. These agreements resulted in increased travel and professional expenses of \$49,526 during the period.

During the quarter, the Corporation worked on the design and development of pulsing equipment for the environmental sector, in preparation for DeepWave<sup>SM</sup> systems for ERM noted above, and improved on previous designs.

**Second Quarter 2004, for three months ended February 28, 2004**

Revenues from monitoring were far below expectations but the Corporation completed two environmental DeepWave<sup>SM</sup> projects, including one at NASA's Cape Canaveral facility. Both projects were for existing and repeat customers but were considered research projects as they provided more data on DeepWave<sup>SM</sup> under different conditions. Costs remained relatively stable with an increase in public company-related expenses due to a financing the Corporation was undertaking and investor relations fees.



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**Wavefront Energy and Environmental Services Inc.**

**First Quarter 2004, for three months ended November 30, 2003**

The Corporation completed the reverse takeover transaction during this quarter. As a result of the transaction, professional fees were slightly higher. Revenues were slightly below expectations as monitoring work generally commences in the second quarter and widespread commercialization of DeepWave<sup>SM</sup> had yet to be accepted. The operating costs for the quarter remained consistent with what was expected.

Due to the delay of monitoring projects, the Corporation re-focused its capacity on designing, building and testing new DeepWave<sup>SM</sup> systems and tools as it continued to work on the promotion and development of DeepWave<sup>SM</sup>.

**LIQUIDITY AND CAPITAL RESOURCES**

*Liquidity*

As at the end of the year, the Corporation had a negative working capital of \$1,237,260. Working capital will continue to come from profits generated from current and future work and financing efforts.

During the year ended August 31, 2005, the Corporation used short-term notes amounting to \$207,876 from related parties to bridge a short-term gap in its cash requirements. During the year, the Corporation repaid \$132,190 of these short-term notes, leaving a balance outstanding at year-end of \$75,686. As well, the Corporation fully utilized its lines of credit.

Given the upfront costs associated with building DeepWave<sup>SM</sup> systems and integrated monitoring projects, the Corporation continued its policy of requiring customers to provide a deposit upon execution of a purchase order, allowance for expenditure or contract. This assists the Corporation in better managing its cash flow, and thus requiring less external working capital financing.

The Corporation has experienced significant losses as a result of operations and is in a significant working capital deficiency. The Corporation's continued existence is dependent on its ability to achieve operational profitability and to raise additional capital in order to finance future operations.

Subject to regulatory approval, and subsequent to the year-end, the Corporation agreed to a private placement ("Private Placement") for 7,038,008 common shares of the Corporation at a price of \$1.35 for gross proceeds of \$9,501,311. The subscription of the Private Placement is by two institutions as portfolio managers. Management has estimated total transaction costs of approximately \$500,000, resulting in net proceeds from the financing of approximately \$9,001,311. The proceeds will be used to support Halliburton's marketing efforts, to collaborate on new DeepWave<sup>SM</sup> systems, to develop mineral properties rights to showcase DeepWave<sup>SM</sup>, to initiate the manufacturing of an inventory of DeepWave<sup>SM</sup> systems for a field-wide implementation and for unallocated working capital.

In addition, subsequent to the fiscal year end, the Corporation closed a non-brokered private placement for gross proceeds of \$450,607. The private placement was priced at \$0.23 per unit and resulted in the issuance of 1,959,160 common shares. In addition, the following convertible securities were exercised to net the Corporation gross proceeds of \$788,931:



**Wavefront Energy and Environmental Services Inc.**

- 1,847,530 common share purchase warrants were exercised at prices ranging from \$0.35 to \$0.55 resulting in gross proceeds of \$748,090, of which 375,276 were exercised by directors of the Corporation.
- 92,783 incentive stock options were exercised at prices ranging from \$0.40 to \$0.50 resulting in gross proceeds of \$40,841, of which 92,783 were exercised by a director of the Corporation.

Liquidity risk associated with financial instruments, which is generally related to accounts receivable, and is believed to be very low based on the Corporation's history and the customers generally serviced.

The Corporation did not default nor was it in arrears on any lease interest or principal payments. Interest on notes payable is due and payable on demand; however, interest was accrued and was not paid during the year.

*Capital Resources*

Currently, the Corporation has no firm commitments for capital expenditures. However, in accordance with the Corporation's strategic plan, cash resources will be required for the following:

- To maintain the Milan County mineral rights, the Corporation must expend resources to develop the property by the end of the second quarter of 2006.
- To support the ongoing collaboration efforts with Halliburton for the development of DeepWave<sup>SM</sup> systems. The research and development of such systems allows the Corporation (and Halliburton) to expand the types of potential applications that DeepWave<sup>SM</sup> can be used in.
- To support the marketing efforts with, and to train Halliburton employees, for the marketing and implementation of DeepWave<sup>SM</sup>.
- To further develop the Roger County property in proportion to the Corporation's working interest.
- To build an inventory of DeepWave<sup>SM</sup> systems for deployment in Rogers County and for license to external oil producers for use in water floods.

There are no known trends or expected fluctuations in the Corporation's capital resources.

The Corporation has fully utilized its lines of credit. As of December 15, 2005, the outstanding balance on the lines of credit was \$65,847 and the Corporation had \$190,924 of cash on hand.

*Contractual Commitments*

As at August 31, 2005	Payments Due by Period				
	Total	Less than 1 Year	1 – 3 Years	3 – 5 Years	More than 5 Years
Long-term debt	\$ 34,189	\$ -	\$ 34,189	\$ -	\$ -
Capital lease obligations	13,061	11,183	1,878	-	-
Operating lease obligations	51,557	48,862	2,695	-	-
Supplier purchase obligations	-	-	-	-	-
Other long-term liabilities	29,483	-	4,232	3,802	21,449
	\$ 128,290	\$ 60,045	\$ 42,994	\$ 3,802	\$ 21,449



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**Wavefront Energy and Environmental Services Inc.**

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**Off-Balance Sheet Arrangements**

The Corporation has no off balance sheet arrangements.

**SHARE CAPITAL**

**Market for Securities**

The common shares of Wavefront Energy and Environmental Services Inc. are listed on the TSX Venture Exchange under the symbol of WEE.

**Description of share capital**

The Corporation's authorized share capital consists of an unlimited number of common shares. During the year ended August 31, 2005, share capital increased to \$6,373,647 from \$5,246,228 at the end of fiscal 2004, as a result of closing a non-brokered private placement for net proceeds of \$535,771, and closing a shares-for-debt transaction settling \$591,648 in liabilities.

Of the shares issued and outstanding, 8,351,486 shares are subject to a value escrow agreement. The balance of common shares held in escrow at year-end was 4,355,199. In addition, 323,078 shares are subject to seed share matrix restrictions that are similar to escrow restrictions, of which 177,693 seed shares have been released.

**Options outstanding**

Date Granted	Expiry Date	Number of incentive stock options	Price per share
June 1 '05	June 1'10	232,500 <sup>(1)</sup>	\$0.40
October 5 '04	October 5 '09	470,000	\$0.45
April 30 '04	April 30 '09	495,455 <sup>(2)</sup>	\$0.44
January 15 '04	January 15 '09	57,500	\$0.50
November 30 '03	November 30 '08	125,000	\$0.55
September 30 '03	September 30 '08	<u>670,000<sup>(3)</sup></u>	\$0.50
		<u>2,050,455</u>	

(1) Subsequent to the fiscal year end 7,083 options were exercised.

(2) Subsequent to the fiscal year end 75,700 options were exercised of which a director of the Corporation exercised 68,200.

(3) Subsequent to the year end 10,000 options were exercised.

The Corporation maintains a Stock Option Plan under which it may grant options for up to 5,130,623 shares of the Corporation at an exercise price no less than the market price of the Corporation's share price at the date of grant. All stock options issued under the Stock Option Plan vest equally, in three month intervals, over eighteen months.



## Wavefront Energy and Environmental Services Inc.

### Warrants outstanding

Date Granted	Expiry date	Number of shares purchase warrants	Price per share
February 28 '05	February 28 '06	2,345,225 <sup>(1)</sup>	\$0.40
May 31 '05	May 31 '06	220,224 <sup>(2)</sup>	\$0.35
May 31 '04	November 30 '05	132,330 <sup>(3)</sup>	\$0.55
May 31 '04	November 30 '05	1,238,171 <sup>(4)</sup>	\$0.40
September 30 '03	September 30 '05	24,700 <sup>(5)</sup>	\$1.00
September 30 '03	September 30 '05	<u>912,664<sup>(5)</sup></u>	\$0.55
		4,873,314	

(1) Subsequent to the fiscal year end 266,605 common share purchase warrants were exercised.

(2) Subsequent to the fiscal year end 215,424 common share purchase warrants were exercised.

(3) These warrants were originally set to expire on May 31, 2005; however, effective May 11<sup>th</sup> the Corporation received TSX approval to have the term first extended to August 31, 2005 and then effective August 5<sup>th</sup> the Corporation received TSX approval extended the expiry term to November 30, 2005. Subsequent to the fiscal year end all 132,330 director share purchase warrants were exercised by directors of the Corporation..

(4) These warrants were originally set to expire on May 31, 2005; however, effective May 11<sup>th</sup> the Corporation received TSX approval to have the term first extended to August 31, 2005 and the price reduced from \$0.55 to \$0.40, and then effective August 5<sup>th</sup> the Corporation received TSX approval to extended the expiry to November 30, 2005. Subsequent to the fiscal year end 1,233,171 common share purchase warrants were exercised and 5,000 expired unexercised.

(5) Subsequent to the fiscal year end all common share purchase warrants expired unexercised.

(6) Subsequent to the year the Corporation issued 1,959,160 common share purchase warrants in connection with a non-brokered private placement on September 1, 2005 and expiring on September 1, 2006. These warrants have an exercise price of \$0.40.

### Options granted during the period

Date of Grant	Number of Shares	Optionee	Exercise Price	Expiry Date
Oct. 5, 2005	470,000	Directors	\$0.45	Oct. 5, 2010
June 1, 2005	67,500	Employees	\$0.40	June 1, 2010
June 1, 2005	<u>165,000</u>	Consultants	\$0.40	June 1, 2010
	702,500			

Subsequent to the reporting period, the Corporation issued 240,000 incentive stock options pursuant to its Stock Option Plan to the independent directors of the Corporation. These stock options were issued with an exercise price of \$0.40 and expire on September 1, 2010.

### Transactions with Related Parties

In connection with the reverse take-over between the Corporation and PE-TECH, certain directors and shareholders of the Corporation and a company related to a director of the Corporation entered into a Debt Repayment Agreement. Under the terms of the Debt Repayment Agreement, the Creditors agreed to postpone their ability to demand repayment of the notes. Certain amounts originally owing were settled under a shares-for-debt transaction, as further described below. The amounts currently outstanding under the Debt Repayment Agreement total \$34,189 and are owed to a company controlled by a related party to a director of the Corporation.



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## Wavefront Energy and Environmental Services Inc.

Notes payable represents amounts due to directors of the Corporation. The notes payable are unsecured, bear an interest rate of 14.0% per annum, have no fixed repayment terms and are repayable 30 days after demand. During the year, the Corporation received funds amounting to \$207,876, of which the Corporation repaid principal in the amount of \$132,190.

In connection with the shares-for-debt settlement on November 29, 2004, \$458,430 in liabilities owed to related parties of the Corporation and a company related to a director of the Corporation were extinguished with the issuance of 1,608,527 shares at a deemed price of \$0.285 per share.

With the February 28, 2005 non-brokered private placement, two directors of the Corporation subscribed for 637,104 Units at a price of \$0.23. Each unit consisting of one common share and one share purchase warrant, with each full share purchase warrant is exercisable at \$0.40 until February 28, 2006.

During the reporting period, the Corporation entered into an Option Agreement (the "Option Agreement") to acquire ninety percent (90%) of the working interest in the production, equipment, and mineral leases of Phoenix Oil, LLC of Claremore, Oklahoma for the total consideration of US \$180,000.00. The leases, known as the Chelsea-Alluwe Waterflood Leases, are comprised of 780-acres and are situated in Rogers County, Oklahoma. For the Option Agreement, the Corporation paid a US \$15,000.00 deposit that was applied to total purchase price. A related limited liability company ("LLC") executed the Option Agreement on behalf of the Corporation by paying the US \$165,000.00 purchase balance for a sixty percent (60%) working interest in the leases. A director and related party to a director of the Corporation control fifty-five percent (55%) of the voting membership units of the LLC. In consideration of the US \$15,000.00 deposit paid by the Corporation, Wavefront retained a thirty percent (30%) working interest in the leases. The LLC provides corporate management of operations whereas Wavefront is the "technical advisor" of the project. Further, the working interest parties have agreed to utilize the DeepWave<sup>SM</sup> system in the project. The exact timing of the implementation and the cost of the DeepWave<sup>SM</sup> system have yet to be negotiated. Each working interest party is responsible for operating and field development costs and receives production revenues in proportion relative to its working interest percentage. At year end, the Corporation has accrued a liability of \$12,340.

### **Proposed Transactions**

There are no currently proposed transactions.

### **Critical Accounting Policies**

The Corporation's accounting policies are disclosed in Notes 3 and 4 to the 2005 Audited Consolidated Financial Statements.

With the acquisition of mineral property interests, the Corporation has adopted Section 3110 "Asset Retirement Obligations" of the Canadian Institute of Chartered Accountants ("CICA") Handbook which address the financial accounting and reporting obligations associated with the retirement of tangible, long-lived assets and their associated net retirement costs.

The Corporation's asset retirement obligation is recognized at its fair value in the period in which it is incurred. Asset retirement costs are capitalized as part of the carrying amount of the long-lived asset and a related amortization expense is recognized in future periods. (No amortization expense has been recognized to date as no production has occurred as at year end.)



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**Wavefront Energy and Environmental Services Inc.**

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**Changes in Accounting Policies**

During the fiscal year, the Corporation adopted revision to Section 3870 of the Handbook of the CICA with respect to the accounting and disclosure of stock-based compensation.

The Corporation previously managed its business under two operating segments: energy and environmental. During the year, the Corporation reorganized its management and reporting structure such that there were no distinct operating segments. As such, the Corporation no longer operates its business as operating segments but on a consolidated basis.

Other than the above, there have been no changes in any accounting policies.

**Financial and Other Instruments**

The Corporation's significant financial and other instruments consist of accounts receivable, as well as accounts payable and accrued liabilities and interest bearing obligations such as its operating line and promissory notes, and other amounts that will result in future cash outlays.

*Accounts Receivable*

The Corporation is exposed to credit risk from its customers, the majority of whom are involved in the oil and gas industry. Additionally, the Corporation has a small number of customers. Concentrations of credit risk with respect to accounts receivable are limited as the majority of transactions are with large publicly traded corporations or government organizations and the dispersion of these customers across geographic areas. Credit risk, with respect to accounts receivables in Canada and the United States, is also limited due to the Corporation's credit evaluation and cash management processes. In addition, the Corporation maintains accounts receivable and work in progress insurance for any work related to Venezuela.

*Interest rate risk*

Interest rate risk reflects the sensitivity of the Corporation's financial results and condition to movements in interest rates principally related to its operating lines of credit, promissory notes payable and lease obligations. This risk is partially mitigated because a portion of the Corporation's borrowings is based on fixed interest rates. The Corporation does not use derivative instruments to reduce its exposure to interest rate risk.

*Foreign currency risk*

The Corporation is exposed to currency risks as a result of its export to foreign jurisdictions of goods produced in Canada or services provided from Canada. These risks are partially covered by purchases of goods and services in the foreign currency. The Corporation does not use derivative instruments to reduce its exposure to foreign currency risk.



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## Wavefront Energy and Environmental Services Inc.

### *Fair value of financial instruments*

The carrying value of the Corporation's interest in financial instruments approximates their fair value. The estimated fair value approximates the amount for which the financial instruments could currently be exchanged in an arm-length transaction between willing parties who are under no compulsion to act. Certain financial instruments lack an available trading market; therefore, fair value amounts should not be interpreted as being necessarily realizable in an immediate settlement of the instrument.

### **Risk Factors**

**No History of Earnings** - Wavefront is an early stage development company and does not yet have a history of earnings, profit or return on investment. There is no assurance that it will earn sufficient revenues to operate profitably or provide a return on investment in the future. The Corporation has no intention for the foreseeable future to pay dividends.

**Need For Additional Financing** – Wavefront may require additional financing in order to make further investments in the technology or to fund unanticipated demand or take advantage of unanticipated opportunities or to fund the Corporation through a slower than anticipated scale-up to profitability. In addition, the Corporation may choose, in an attempt to expedite the achievement of market acceptance and/or to increase the yield from pulsing jobs, to become engaged in the upfront financing of certain DeepWave<sup>SM</sup> jobs in return for a share of the benefits of the pulsing over time. There can be no assurance that additional financing will be available to the Corporation on acceptable terms, or at all. Such financing, if available, might have the effect of diluting the holdings of existing shareholders.

**Market Acceptance** – DeepWave<sup>SM</sup> acceptance will be dependent on the Corporation's consistently demonstrating the benefits of it in the field and under a variety of conditions. Much of the field validation of DeepWave<sup>SM</sup> technology has been obtained to date in heavy oil environments with limited results in light oil and ground water remediation. There can be no assurance that commercial acceptance of the Corporation's products and services will be achieved within a reasonable timeframe and with the financial resources available to the Corporation now or in the future.

**Rapid Changes / Competition** – Other companies have developed, and may be developing, alternative technologies faster than Wavefront. Such companies may develop products that are as, or more, effective than those developed by Wavefront and there can be no assurance that research and development by others will not render Wavefront's technology obsolete or non-competitive.

**Technology Risks** – Although the results of research, development, and field results have demonstrated DeepWave<sup>SM</sup> technology to be viable, there is no guarantee that Wavefront's technology will be successful or be applied successfully in all cases in the field. Although Wavefront believes there will be many applications for its products and services and that the anticipated market will be receptive and expand, these beliefs may prove to be incorrect for a variety of reasons, including competition from other products and the degree of commercial viability of its products. The possibility of a DeepWave<sup>SM</sup> project's not providing the intended benefits (albeit, believed by management to be manageable and small), due to unforeseeable factors, could also impede the acceptance of the technology by the market place. Any failure of the DeepWave<sup>SM</sup> technology to generate the intended benefits, even in isolated circumstances, could have an adverse effect on, or slow, market acceptance.

**Volatile Commodity Markets** - The marketability of Wavefront's products and services could be affected, directly or indirectly, by significant declines in oil prices. The Corporation believes that there would have to be a fairly major decline before the incremental cost / benefit of pulsing would be rendered un compelling.



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## Wavefront Energy and Environmental Services Inc.

**Government Regulations / Policy** – The Corporation may be subject to, and adversely affected from time to time by changes in regulation and policy in the countries it is, or plans to be, operating in and such factors may create delays in project procurement and implementation that may result in the need for additional funding.

**International Business** – The Corporation undertakes business internationally. Securing of such business introduces currency risks, credit risks, political risks and other risks inherent to conducting business internationally. There can be no assurance that steps taken by management to address these risks will eliminate all adverse affects and, accordingly, the Corporation may suffer losses.

**Management of Growth and Key Personnel** – The Corporation’s anticipated growth and expansion into new geographic areas and, ultimately, new applications for the DeepWave<sup>SM</sup> technology, will require additional management expertise and will place increased demands on Wavefront’s resources and management with respect to recruiting, training, budgeting, scheduling and technical skills. These demands will require the addition of new management and technical personnel and the development of additional expertise by existing personnel. A shortage of, or failure to retain, such personnel or develop or acquire the expertise could adversely affect prospects for Wavefront’s success.

**Patents** – Wavefront’s success will depend, in part, on its ability to enforce and defend its patents, maintain trade secret protection and operate without infringing on the proprietary rights of third parties or having third parties circumvent the Corporation’s rights. Wavefront has received five patents, and is actively pursuing, applications for patents in Canada, the United States and the UK. Furthermore, there can be no assurance that others will not independently develop similar products, which duplicate any of Wavefront’s technology or products or, if patents are issued to Wavefront, design around those patented products developed by Wavefront. The Corporation will however, vigorously defend its patents and any intellectual property.

**Conflicts of Interest** - Directors and officers of the Corporation may serve as directors of, or have shareholdings in, other reporting or private entities. To the extent that such other companies or entities may participate in ventures in which the Corporation may participate, the directors or officers of the Corporation may have a conflict of interest in negotiating and concluding terms respecting the extent of such participation. The laws of Canada, applicable to the Corporation, provide that the directors of the Corporation must act honestly, in good faith and in the best interests of the Corporation in resolving any conflicts that may arise, and all directors of the Corporation are aware of these fiduciary responsibilities. In determining whether or not the Corporation will participate in a particular venture, the directors will primarily consider the degree of risk to which the Corporation may be exposed, its financial position at that time and, depending on the magnitude of the venture and the absence of any disinterested directors, whether or not to subject any ventures in question to the shareholders of the Corporation for their approval.

**Reliance on Third Parties and Future Collaboration** – The Corporation has, and is anticipated to enter into, various arrangements with collaborators, licensors, licensees and others for the research, development, testing, manufacturing and marketing of its products and services. There can be no assurance that the Corporation will be able to establish such collaborations on favorable terms, if at all, or that its current or future collaborative arrangements will be successful.

**Product Liability, Warranties and Uninsured Risks** – The sale of products and services may expose the Corporation to warranty costs or other potential liability resulting from such use. Although product liability insurance is currently maintained, the obligation to pay a claim in excess of insurance could have a material adverse effect on the business, financial condition and future prospects of the Corporation. With regards to warranty exposure, the Corporation shall establish a reserve for such in accordance with GAAP.



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**Wavefront Energy and Environmental Services Inc.**

**Environmental Matters** – Currently the Corporation supplies and licenses oilfield and environmental remediation products and services, there is the possibility that it will be subject to federal, provincial and local laws and regulations regarding the environment. Although management believes its safety procedures are appropriate, the risk of offence or liability cannot be completely eliminated. Moreover, there can be no assurance that the Corporation will not be required to incur significant costs to comply with laws and regulations in the future. The acquisition of mineral rights however, will expose the Corporation to those environmental, plugging and abandonment liabilities associated with any other oil producer.

**Outlook**

Looking forward, some industry experts expect that the high price environment for crude oil and natural gas appears to be sustainable for the foreseeable future. As a result, production efforts in North America and on a worldwide basis are expected to remain strong. This focus on production will be a strong driver on how DeepWave<sup>SM</sup> is commercialized and will affect the Corporation's financial performance in fiscal 2006.

Efforts for fiscal 2006 will be focused on leveraging the Rogers County project to bring the Corporation to a cash flow positive position and to market DeepWave<sup>SM</sup> to mainstream oil producers. As Halliburton focuses on well intervention applications for DeepWave<sup>SM</sup>, the Corporation will endeavor to implement field-wide water flood applications with a mainstream producer. In addition, with the positive result of Halliburton projects, the Corporation anticipates that Halliburton will continue to expand its offering of DeepWave<sup>SM</sup> well intervention services and thus, increasing the Corporation's licensing revenue. The Corporation also anticipates growing licensing revenues from Top Gun. Oil production from Rogers County and licensing revenue will be a strong financial driver in establishing its profitability.