



Wavefront Energy and Environmental Services Inc.

<input type="checkbox"/>	Third Quarter Report
<input type="checkbox"/>	For the nine month
<input checked="" type="checkbox"/>	period ended
<input type="checkbox"/>	May 31, 2006

The accompanying unaudited interim financial statements of the Corporation have been prepared by and are the responsibility of the Corporation's management.



Wavefront Energy and Environmental Services Inc.

TO THE SHAREHOLDERS:

The Corporation continues to execute its three-point strategy of licensing DeepWaveSM to industry leaders, selling and implementing the technology directly with end users, and acquiring oil field assets to implement DeepWaveSM. This strategy has resulted in over 51% of all revenue being derived from DeepWaveSM. For the third quarter DeepWaveSM revenue totalled \$190,926. Of the DeepWaveSM revenue recognized, \$163,626 was a result of royalties and minimum royalty amounts due from our licensed agents.

The Corporation's financial position has been greatly strengthened with the closing of significant non-brokered private placements and the exercise of convertible securities. This improved financial position will allow the Corporation to more aggressively pursue other oil field acquisitions, joint ventures and development opportunities in North America and abroad. As we secure opportunities and actively develop or participate in various oil field operations we anticipate production revenues will increase while operating costs are expected to remain relatively stable. In addition, as results from DeepWaveSM projects are received, it is believed revenue derived from the technology will continue to grow.

On behalf of the Board of Directors

A handwritten signature in black ink, appearing to read "Brett Davidson", is written over a light blue horizontal line.

Brett C. Davidson
President & CEO



MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE NINE MONTHS ENDED MAY 31, 2006

The following financial highlights should be read in conjunction with the unaudited consolidated financial statements for the Corporation's most recently completed quarter ended May 31, 2006, and additional information that has been filed on System for the Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com.

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 DeepWaveSM technology, demand for products and services, fluctuations in the market for oil and gas related products and services, oilfield development and production risks, decline rates in oil producing wells, potential non-cash write-downs of oil properties, 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

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 July 24, 2006.

Description of Business

The principal business of Wavefront Energy and Environmental Services Inc. ("Wavefront" or "the Corporation") is the development, licensing, and implementation of DeepWaveSM technology for improved oil recovery and enhanced groundwater remediation.

DeepWaveSM Technology

DeepWaveSM is patented injection technology / methodology that dramatically improves the flow rate and distribution of liquids in the ground.

DeepWaveSM 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 CO₂ Injection
- Surfactant and Polymer floods

DeepWaveSM has been successfully applied in heavy and light oil, in gas wells, as well as in groundwater remediation. The method of implementation or system utilized depends upon among other things, the geology and fluid viscosity. DeepWaveSM implementation is specific to suit a given geological situation. DeepWaveSM can be modified to increase injection and production flow rates, production well efficiency, and oil recovery ratios in a wide variety of configurations.

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 licenses a scaled-down DeepWaveSM system for groundwater remediation. DeepWaveSM has been verified as an environmental remedial strategy by Environment and Industry Canada. The following lists some applications of DeepWaveSM 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 groundwater contaminant.
- Rehabilitation of water wells.

The optimization of DeepWaveSM is dependant upon, among other things, the characteristics of the fluid waveform created. Thus, part of Wavefront’s value proposition is to model, optimize, and monitor DeepWaveSM outcomes. Wavefront’s intellectual property strategy is to maintain absolute control over its DeepWaveSM modeling software known as the “DeepWaveSM 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 DeepWaveSM Technology

Given the challenges of implementing a global technology, the Corporation 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 DeepWaveSM 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 DeepWaveSM 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 DeepWaveSM by utilizing Halliburton’s sales networks.
- Eliminate potential DeepWaveSM system manufacturing and implementation bottlenecks.
- Provide the Corporation and DeepWaveSM with greater exposure and credibility.
- Through the Collaboration Agreement, expand the markets for DeepWaveSM by having different systems that can operate in different geological environments.



Environmental Sector Application of DeepWaveSM 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 DeepWaveSM to the environmental sector. Wavefront also has one registered sales agent 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 DeepWaveSM while limiting the resources required building a revenue stream from the environmental sector.

RESULTS OF OPERATIONS

Consolidated Results – nine months ended May 31, 2006

Revenues

Revenues for the nine months ended May 31, 2006 were \$468,674, a decrease of \$742,223 from the revenue recognized in corresponding period of May 31, 2005 of \$1,210,897. The decrease in revenues is a result of the comparative period recognizing the sales of two, unusual one-time, integrated monitoring products and services that resulted in total revenue of \$883,862. Included in other revenue for May 31, 2006 was \$91,386 interest income generated from guaranteed investment certificates that resulted from recent private placements.

During the current reporting period the Corporation has focused its resources on DeepWaveSM showcasing the technology in oilfields where the Corporation has acquired mineral rights. Approximately 51% of revenues for the quarter were generated from activities associated with the DeepWaveSM technology, while the remainder of revenue was related to sale of integrated monitoring products and services to external customers in Alberta, as well as production revenue and operator fees for the Rogers County, Oklahoma oilfield operations. Gross profit as a percentage of revenue was 66% for the nine month period and is greater than that for the comparative period of last year of 28% due to increased DeepWaveSM related royalties and revenues that have little costs of goods sold.

General & Administrative Expenses

The Corporation’s general and administrative expenses through the nine month period for fiscal 2006 were \$2,037,167, an increase from the \$1,432,435 incurred for the same period of the comparative period (the nine months ending May 31, 2005).

General and administrative expenses increased by \$604,732, primarily due to increases in wages expense of \$400,558, professional fees of \$289,450, and listing and public company fees of \$36,570. Off-setting these increases were decreases in research and development expenses of \$76,430, interest expense of \$48,537 and consultant expenses of \$39,953. The aforementioned variances in expenses reflect the following:

- The Corporation’s involvement in developing the Rogers County oilfield to showcase DeepWaveSM. This includes the increases in the number of staff employed as well as increased wage rates resulting from operating the Rogers County oilfield.
- The inclusion of the fair value of stock option valuation as an employee wage expense approximated \$438,504 for the nine months ended May 31, 2006. The increase in the fair value is a result of the Corporation’s increased liquidity, which as a result has mitigated the Corporation’s ability to discount the expense by 60%. The majority of the expense relates to the 725,000 incentive stock options issued on January 11, 2006 and 200,000 incentive stock options issued on May 15, 2006.

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- During the reporting period the Corporation initiated a lawsuit against Applied Seismic Corporation (“ASR”) of Plano, Texas asserting tortious interference with a pending contract for the implementation of DeepWaveSM with Occidental Petroleum of Elk Hills in California. ASR has made a counterclaim against the Corporation asserting patent infringement. Legal and patent attorney costs totaled \$221,527 and are recorded within the professional fees expense. The Corporation maintains its position that its patents are valid and strong, that it does not infringe on ASR’s patents and that it will be successful in its lawsuit against ASR. The remainder of professional fees are related to an employment agency, US immigration lawyer, securities and corporate lawyer fees.
 - The successful collaboration of a coiled tubing DeepWaveSM tool with Halliburton Energy Services has allowed the Corporation to reduce its research and development costs. These costs however, are expected to increase as the Corporation and Halliburton endeavour to develop additional continuous field stimulation tools for use in waterfloods, disposal wells, etc. The new generation collaborated continuous system will be an addition to the DeepWaveSM systems the Corporation is currently deploying or developing on its own.
 - The extinguishment of certain interest bearing debts thereby reducing or eliminating interest accruals, and the recovery of interest on professional fees charges that approximated \$19,000 and relate previous reporting periods.
 - The Corporation’s involvement in developing the Rogers County oilfield to showcase DeepWaveSM and the collaboration efforts with Halliburton has also resulted in increased travel to Texas and Oklahoma. To reduce these costs going forward the Corporation has hired a senior employee in Texas and will be opening and staffing an office in Houston in August 2006.

Net Loss and Loss Per Share

The net loss for the nine months ended May 31, 2006 was \$1,726,921 (\$0.05 per share), compared to \$1,162,105 (\$0.05 per share) in 2005. The increased losses were a result of focusing resources on having an oilfield to show case DeepWaveSM, which affected short-term revenue in favour of longer-term oil production revenue. Additionally, the losses of the Corporation were impacted by the ongoing lawsuit with ASR. The Corporation expects financial results to improve, moving towards profitability, as DeepWaveSM licensing revenues and oil production revenues from mineral rights increase, while operating costs (not related to the ASR lawsuit) are expected to remain relatively stable.

Consolidated Results – three months ended May 31, 2006

Revenues

Revenues for the three months ended May 31, 2006 were \$203,345, a decrease of \$266,271 from the revenue recognized in corresponding period of May 31, 2005 of \$469,616. The decrease in revenues is a result of the comparative period recognizing the sales of two, unusual one-time, integrated monitoring products and the focus of resources on showcasing DeepWaveSM technology in oilfields where the Corporation has acquired mineral rights. Included in other revenue for the three months ended May 31, 2006 was \$91,386 interest income generated from guaranteed investment certificates that resulted from recent private placements.

General & Administrative Expenses

The Corporation's general and administrative expenses for the three months ended May 31, 2006 were \$1,010,790, an increase from the \$461,934 incurred for the same period of the comparative period (the three months ending May 31, 2005). The general and administrative expense increase of \$548,856 was primarily due to increases in wages expense of \$273,656, professional fees of \$277,678, listing and public company fees of \$19,298, and repairs and maintenance of \$18,208. Off-setting these increases were decreases in vehicle expenses of \$16,066, research and development expenses of \$13,986, and office expenses of \$11,789. The aforementioned variances in expenses reflect the Corporation's involvement in developing the Rogers County oilfield to showcase DeepWaveSM, its ongoing litigation with ASR, and its relocation of the office facilities in Edmonton.

Net Loss and Loss Per Share

The net loss for the three months ended May 31, 2006 was \$801,700 (\$0.02 per share), compared to \$400,202 (\$0.02 per share) in 2005. The increased losses were a result of focusing resources on having an oilfield to show case DeepWaveSM, which affected short-term revenue in favour of longer-term oil production revenue. Additionally, the losses of the Corporation were impacted by the ongoing lawsuit with ASR. The Corporation expects financial results to improve, moving towards profitability, as DeepWaveSM licensing revenues and oil production revenues from mineral rights increase, while operating costs (not related to the ASR lawsuit) are expected to remain relatively stable.

Seasonality of Operations

Integrated monitoring services offered by the Corporation are seasonable and related to the product offering and geographical extent to which products were offered for sale. The Corporation's main product offering is pressure measuring systems suitable for two distinct well types: steam injection wells and independent pressure monitoring wells. The target geographical area of the product offering is Alberta, and more specifically the heavy oil belt in the area north of Cold Lake. Due to temperature influences on ground conditions, the majority of work is completed in the months between November and March when the ground is in a "frozen" state passable by vehicles as well as drilling and services rigs. The Corporation however, is focusing its resources on DeepWaveSM and where it can showcase DeepWaveSM technology in oilfields where it has mineral rights. As such management believes that this seasonality of operations will have less of an affect moving forward.

In regards to the application of DeepWaveSM and the Corporation's mineral rights, there are no known seasonal fluctuations.



Summary of Quarterly Results

All amounts in Canadian dollars	3rd Qtr	2nd Qtr	1st Qtr	4th Qtr
	2006	2006	2006	2005
	May 31 '06	Feb 28 '06	Nov 30 '05	Aug 31 '05
Revenue	\$ 203,345	\$ 169,972	\$ 95,357	\$ 123,387
Loss from Operations	\$ 821,833	\$ 553,911	\$ 350,065	\$ 452,468
Net Loss	\$ 801,700	\$ 573,273	\$ 351,948	\$ 447,248
- Per Share - Basic and Diluted	\$ 0.022	\$ 0.018	\$ 0.012	\$ 0.012

	3rd Qtr	2nd Qtr	1st Qtr	4th Qtr
	2005	2005	2005	2004
	May 31 '05	Feb 28 '05	Nov 30 '04	Aug 31 '04
Revenue	\$ 469,616	\$ 419,170	\$ 322,111	\$ 110,143
Loss from Operations	\$ 392,249	\$ 317,808	\$ 384,429	\$ 132,115
Net Loss	\$ 400,202	\$ 376,067	\$ 384,214	\$ 235,077
- Per Share - Basic and Diluted	\$ 0.016	\$ 0.016	\$ 0.016	\$ 0.006

(1) This Financial data has been prepared in accordance with Canadian GAAP.
(2) Each quarter's figures are for the three month period ending on the date listed.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

At the end of nine months ending May 31, 2006, the Corporation had working capital of \$16,027,410 (compared to a working capital deficit of \$1,237,260 for the August 31, 2005). The Corporation's improved working capital is a direct result of its ability to close two significant private placements that provided total gross proceeds of \$17,574,518. Working capital will be derived from profits generated from current and future work related to DeepWaveSM royalties, fees or oil production.

During the nine months ending May 31, 2006, the Corporation concluded the following share capital transactions that increased its cash resources:

1. Effective September 1, 2005, the Corporation closed a non-brokered private placement for gross proceeds of \$450,607. In addition, the Corporation paid filing and legal fees of \$3,225, resulting in net cash proceeds of \$447,382.
2. Effective January 11, 2006, the Corporation closed a non-brokered private placement for gross proceeds of \$9,501,311. The Corporation paid a finders fee in the amount of \$450,079 to an arms length party and filing and legal fees of \$48,181, resulting in net cash proceeds of \$9,003,051.
3. Effective May 26, 2006, the Corporation closed a non-brokered private placement for gross proceeds of \$8,073,207. The Corporation paid finder's fees in the amount of \$153,700 to two arm's length parties, and filing and legal fees of \$44,168, resulting in net cash proceeds of \$7,875,339. As at May 31, 2006 gross proceeds of \$2,570,660 related to this private placement were not yet received, however; all funds were received subsequent to the reporting period.



4. 409,366 stock options were exercised at prices ranging from \$0.44 to \$0.45 resulting in gross proceeds of \$149,477. Of the incentive stock option exercises, directors of the Corporation exercised 340,000 incentive stock options.
5. 5,200,037 common share purchase warrants were exercised at prices ranging from \$0.35 to \$0.55 resulting in gross proceeds of \$181,027. Of the common share purchases warrants exercised, directors of the Corporation exercised 906,484 common share purchases warrants.

In addition, subsequent to the nine months ended May 31, 2006, 100,000 share purchase warrants were exercised at \$0.40 resulting in gross proceeds of \$40,000, and 5,000 incentive stock options were exercised at \$0.40 resulting in gross proceeds of \$2,000.

Liquidity risk associated with financial instruments, which is generally related to accounts receivable, 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 and amount due to shareholders is due and payable on demand.

Interest expense on long-term amounts for the nine months ended May 31, 2006, owing to a company controlled by a director and a related party of the Corporation totaled \$2,181 (2005 - \$8,389). Accrued interest payable at May 31, 2006, owing to directors of the Corporation and to a company controlled by a director and a related party of the Corporation is \$4,127 (2005 - \$17,781) and is included in accounts payable and accrued liabilities.

Interest expense on short-term notes amounts for the nine months ended May 31, 2006, owing to directors of the Corporation totaled \$5,052 (2005 - \$2,974). Accrued interest payable as at May 31, 2006 is \$5,126 (2005 - \$9,982) and is included in accounts payable and accrued liabilities.

On May 31, 2006, the Corporation repaid the principal balance of \$35,686 on the short-term notes and \$34,189 on the long-term amounts due to shareholders. All amounts repaid were owing to directors of the Corporation and a company controlled by a director and a related party of the Corporation.

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 support the ongoing collaboration efforts with Halliburton for the development of DeepWaveSM systems. The research and development of such systems allows the Corporation (and Halliburton) to expand the types of potential applications that DeepWaveSM can be used in.
- To support the marketing efforts and to train Halliburton employees for the implementation of DeepWaveSM.
- To further develop the Rogers County property in proportion to the Corporation's working interest. The Corporation is also currently evaluating the acquisition of the sixty percent (60%) working interest held by Boulder Oil LLC, a related party.
- To acquire additional mineral rights around the Rogers County location for oil production and the installation of DeepWaveSM systems.

- Further the farm-in agreement (“Farm-in Agreement”) with Greentree Gas and Oil Ltd. (TSX-V: GGO) (“Greentree”) for the Rodney South oil field lease. Under the Farm-in Agreement with Greentree, the Corporation will be required to fund the development of the South Rodney Field property for oil production and the installation of DeepWaveSM systems (see Proposed Transactions below).
- To build an inventory of DeepWaveSM systems for deployment in Rogers County, South Rodney Field, and elsewhere, as well as for licensing to external oil producers for use in waterfloods or disposal wells.

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

As of July 24, 2006, the outstanding balance on the Corporation’s lines of credit was \$10,073 and the Corporation had \$15,224,742 of cash and guaranteed investment certificates.

The Corporation has moved into a new 8,816 square foot office and warehouse facility in Edmonton, Alberta under a one-year lease at a rate of \$7,163 per month. The Corporation will have an option on the second year at a rate of \$7,365 per month. The structure of the corporate facilities lease is to allow the Corporation flexibility to adapt to its growth rate. In addition, effective August 1, 2006, the Corporation has entered into a 2,057 square foot office facility in Houston, Texas under a three year lease at a rate of US \$3,171 per month.

The Corporation intends to buyout its capital leases and certain operating leases.

Off-Balance Sheet Arrangements

The Corporation has no off balance sheet arrangements, except as described above with respect to office leases.

CAPITAL ASSETS AND EXPENDITURES

Assets

Total assets increased by \$18,066,480 to \$18,999,047, which was principally due to an increase in cash resulting from the above noted share capital transactions. Additional increases in accounts receivable and mineral property interests relate to work associated with Rogers County in Oklahoma.

On February 28, 2006, the anniversary date of the Milam County option agreement, the Corporation had let its mineral right option lapse. Milam County had no production infrastructure in place, as such the expiry of the Milam County mineral rights allowed to the Corporation to focus its resources on Rogers County, which had a level of production equipment in place. Thus, the Corporation has fully impaired the Milam County mineral rights in the amount of \$12,836.

Liabilities

Total liabilities decreased by \$240,754 to \$1,340,149 from the previous year-end. This was principally due to the closing of two non-brokered private placements that allowed the Corporation to eliminate the \$450,607 advances on share subscription and the reduction of bank indebtedness by \$209,968.

These decreases were offset by increases in accounts payable and accrued liabilities by \$524,672 that relate to legal fees associated with the ASR lawsuit and the assumption of operations of Rogers County. The assumption of operations of Rogers County implies that the Corporation initially incurs one hundred percent of operating and developing costs.



These operating and developing costs are then reduced by its working interest partner's proportionate amounts at a later date, thereby creating a receivable.

TRANSACTIONS WITH RELATED PARTIES

In connection with the reverse take-over of PE-TECH Inc., dated September 30, 2003, certain directors and shareholders 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 balance until September 30, 2004, after which principal repayment was restricted to twenty percent (20%) of consolidated cash flows from operations. As such, the entire balance was classified as long-term debt. In the prior year the Corporation settled \$495,515 of amounts due to shareholders in accordance with a Shares-for-Debt Settlement Agreement. As a result, the balance outstanding at August 31, 2005 was \$34,189.

Interest expense on long-term amounts for the nine months ended May 31, 2006, owing to directors of the Corporation or to a company controlled by a director and a related party of the Corporation totaled \$2,181 (2005 - \$8,555). Accrued interest payable at May 31, 2006, owing to directors of the Corporation or to a company controlled by a director and a related party of the Corporation is \$4,127 (2005 - \$17,781) and is included in accounts payable and accrued liabilities.

Interest expense on short-term notes owing to directors of the Corporation for the nine months ended May 31, 2006, totaled \$5,052 (2005 - \$2,974). Accrued interest payable as at May 31, 2006 is \$5,126 (2005 - \$9,982) and is included in accounts payable and accrued liabilities.

On May 31, 2006, the Corporation repaid the principal balance of \$35,686 on the short-term notes and \$34,189 on the long-term amounts due to shareholders. All amounts repaid were owing to directors of the Corporation or to a company controlled by a director and a related party of the Corporation.

Effective September 1, 2005, the Corporation issued 1,959,160 units of the Corporation at a price of \$0.23 per unit for gross proceeds of \$450,607. The 1,959,160 units were issued by way of a non-brokered private placement. Each unit consisted of one common share and one common share purchase warrant, with each full share purchase warrant entitling the holder to acquire a common share at a price of \$0.40 for a period of 12 months ending September 1, 2006. Of the 1,959,160 units issued, a director of the Corporation subscribed for 276,767 units.

Of the 409,366 stock options exercised during the nine months ended May 31, 2006, 340,000 stock options were exercised by directors of the Corporation at a prices ranging from \$0.44 to \$0.45. Of the 5,200,037 common share purchase warrants that were exercised during the nine months ended May 31, 2006, 906,484 common share purchases warrants were exercised by directors of the Corporation at prices ranging from \$0.35 to \$0.55. In connection with the common share purchases warrants that were undertaken by a director of the Corporation, \$41,103 of the consideration paid was non-cash and involved the extinguishment of notes payable, accrued interest and other accrued liabilities.

In the prior year 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 total consideration of U.S. \$180,000. 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 U.S. \$15,000 deposit that was applied to the total purchase price. A related limited liability company ("LLC") executed the Option Agreement on behalf of the Corporation by paying the remaining U.S. \$165,000 of the purchase price for a sixty percent (60%) working interest in the leases. A director and a 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 U.S. \$15,000 deposit paid by the Corporation, it retained a thirty percent (30%) working interest in the leases. The LLC provides the corporate management of operations. Each working interest party is responsible for operating and field development costs in proportions relative to their working interest percentage.

Certain prior year amounts have been reclassified from mineral rights to capital assets to conform to the presentation adopted for the current year. In addition, the Corporation has capitalized and included in capital assets its proportionate share of the oil well development costs totaling \$66,210 related to the Rogers County venture. This amount is due to the LLC joint venture partner and is included in accounts payable and accrued liabilities. Total accrued liabilities owed to the LLC joint venture partner, as at May 31, 2006 is \$74,604.

In addition, during the reporting period the Corporation became the operator of the Rogers County venture. As the operator the Corporation is responsible for 100% of all operating and development costs, which are then reduced by its working partners proportionate share. These amounts are due from the LLC and an arms length party and are included as an offset to operating expenses, oil well development costs, and accounts receivable. As the operator, the Corporation has capitalized and included in capital assets its proportionate share of the oil well development costs totaling \$284,497 related to the Rogers County venture. As at May 31, 2006, total receivables owed to the Corporation by its working interest partners totaled \$674,067. Of the total receivables, \$578,845 is due from the LLC joint venture partner.

The Corporation has recognized production revenue of \$13,974 related to the Rogers County venture. Of the \$13,974 in production revenue, \$3,629 is due from the LLC joint venture partner and is included in accounts receivable.

PROPOSED TRANSACTIONS

With the acquired mineral property interests in Rogers County, Oklahoma, including production equipment, efforts have been focused on increasing production levels by working over all existing producing wells, drilling new injection and production wells while implementing and measuring waterflood attributed production to establish a baseline before installing the Corporation's DeepWaveSM systems. With the Corporation having a 30% interest in the Rogers County oilfield, it will be responsible for 30% of the costs required to meet the previously noted objectives and the capitalization of the requisite DeepWaveSM systems. However, as the operator it now initially incurs one hundred percent of operating and developing costs. These operating and developing costs are then reduced by its working interest partner's proportionate amounts at a later date, thereby creating a receivable.

As noted previously the Corporation is assessing the merits of acquiring the 60% working interest in Rogers County held by the LLC. During the reporting period ended May 31, 2006, the Corporation acquired 100% of the working interest in certain mineral leases adjacent to the Rogers County leases for total consideration of U.S. \$219,000.

Under the Farm-in Agreement with Greentree, Wavefront will provide up to \$2.25 million for initial capital expenditures and working capital requirements. Additional development costs are expected to be derived from cash from operations. Greentree will act as the Operator of the lease and will contribute the petroleum leases, existing seismic and geological data, and the use of its existing field facilities. Greentree will also provide its field maintenance staff, administrative, and office support staff. In consideration for each party's contributions, cash flow from operating activities will be allocated seventy percent (70%) and thirty percent (30%) to Wavefront and Greentree, respectively, until payout of Wavefront's initial \$2.25 million capital investment. Subsequent to payout, cash flow from operating activities will be allotted fifty percent (50%) to each of Wavefront and Greentree respectively. As at July 24, 2006, the Corporation has incurred \$13,789 in costs related to the Greentree Farm-in. The Corporation and Greentree are in the final stages of developing a development plan and applying for the required permits. The Corporation will advise of the development plan, anticipated timelines and financial commitments to the project and intended DeepWaveSM applications as they are finalized.

The intent of the mineral property interests' acquisition is to have permanently installed DeepWaveSM systems to showcase the Corporation's technology to its customers, licensed agents and financial markets. The acquisitions address the Corporation's three-point strategy of licensing the DeepWaveSM stimulation process to industry leaders, marketing and implementing the technology within Canada and the United States and acquiring undervalued oilfields to implement the technology. Management believes that each of the strategic initiatives is cross-supportive and will effectively aid in accelerating overall technology adoption.

In addition and subsequent to the reporting period the Corporation entered into the following Letters of Intent:

1. A Letter of Intent to acquire a 100% undivided interest (the "Top Gun Acquisition") in Top Gun Sand Pumps and Rentals ("Top Gun"), an arms length privately held Saskatchewan company. Total consideration for the Top Gun Acquisition will not exceed \$1.2 million (the "Top Gun Purchase Price"). Of the total Purchase Price, the Corporation will issue common shares in its capital, such value equal to fifty percent (50%) of the Top Gun Purchase Price (i.e., up to \$600,000), based on the closing share price of the Corporation's listed common shares on the TSX Venture Exchange (the "TSX") on the trading day prior to the execution date of the purchase agreement(s). In addition, Top Gun's principals have agreed to have all shareholder advances, loans, debts and interest to be restructured as unsecured and non-interest bearing, to be repaid over three (3) years.

Should the acquisition of Top Gun Acquisition close it will allow the Corporation access to patented technology that to date has been related to heavy oil recovery but can be readily transferable to light oil production and use in the Corporation's oil field assets. Such Top Gun technology was augmented that on the down-stroke it included some benefits related to the DeepWaveSM technology. Thus, the acquisition would increase the Corporation's intellectual portfolio, add positive cash flows and add access to skilled resources.

2. A purchase agreement to acquire fifty (50%) percent of the outstanding membership units of Oil Enhancement Tools LLC ("OET"), a privately held Wyoming company, from an arms length individual (the "OET Acquisition"). Total consideration for the OET Acquisition will not exceed US \$250,000 (the "Purchase Price"). In connection with entering into the Letter of Intent, the Corporation advanced a US \$100,000 refundable deposit (the "OET Deposit). The OET Deposit is be secured by a demand promissory note, with the membership units or shares in OET placed in trust with the Corporation's lawyers. Upon closing the Corporation of the OET Acquisition will issue common shares in its capital, such value equal to US \$100,000 of the purchase price, based on the closing share price of Corporation's listed common shares

on the TSX Venture Exchange on the trading day prior to the execution date of the Purchase Agreement(s) and the balance of US \$50,000 in cash.

Should the OET Acquisition close it would add to the Corporation's intellectual portfolio, and provide a well design tool that could be easily augmented for use in the DeepWaveSM process.

Completion of the above acquisitions is subject to a number of conditions, including but not limited to, TSX Venture Exchange acceptance, further due diligence by the Corporation, definitive purchase agreements and the Corporation's board approval. There can be no assurances that the transaction will be completed as proposed or at all.

CRITICAL ACCOUNTING POLICIES

The Corporation's financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include estimates that reflect management's estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and revenue and expenses for the period reported. Estimates are based upon historical experience and various other assumptions that reflect management's best judgments. These estimates are evaluated periodically and form the basis for making judgments regarding the carrying values of assets and liabilities and the reported amount of revenue and expenses. Actual results could differ from these estimates.

The following discussion outlines the accounting policies and practices and management's estimates that are critical to determining Wavefront's financial results.

Revenue recognition and unearned revenue

Revenue is recognized when products or services have been delivered to and accepted by third party customers. Amounts received from customers in advance of products or services being provided are recorded as unearned revenue when received. Specific revenue recognition policies are as follows:

- (a) Revenue from the sale of monitoring systems is recognized at the completion of a monitoring installation. In addition, under certain sales and service contracts a provision for potential warranty expense is provided for at the time of sale, based on warranty terms and prior claims experience.
- (b) Licensing royalties, technology fees or commission revenues are recognized on a percentage of completion bases as the underlying DeepWaveSM contracts are for a set time period. Percentage of completion is determined by relating the amount of time a DeepWaveSM system has been operating to the total contracted amount of time the system will be operating. Any project loss is recognized immediately.
- (c) Revenue associated with the production and sale of crude oil where the Corporation has working interest in oilfields is recognized in same period when production of the commodity has taken place.



Oilfield Mineral Rights

In connection with the mineral rights owned by the Corporation, the Corporation has capitalized and included in its proportionate share operating expenses and oil well development costs. As the operator of the Rogers County oilfield, the Corporation is responsible for 100% of all operating and development costs, which are then reduced by its working partners' proportionate share. The working partners' proportionate amounts are then recorded as an offset to operating expenses, oil well development costs and accounts receivable.

Investments in unproved mineral rights and development expenditures are not amortized until proved reserves associated with the project can be determined or until impairment occurs. At May 31, 2006, management believes that no impairment of the mineral rights has occurred and no depletion or depreciation of the oilfield mineral rights has been recorded at May 31, 2006.

Asset Retirement Obligations

The Corporation recognizes the fair value of estimated asset retirement obligations on the consolidated balance sheet when a reasonable estimate of fair value can be made. Asset retirement obligations include those for which a company faces a legal obligation to retire tangible long-lived assets such as well sites, pipeline and facilities. Actual expenditures incurred are charged against the accumulated obligations.

The asset retirement cost, equal to the estimated fair value of the retirement obligations, is capitalized as part of the cost of the related long-lived assets. Asset retirement costs are amortized using the unit-of-production methods and are to be included in the depletion and depreciation in the consolidated statement of loss and deficit.

FINANCIAL AND OTHER INSTRUMENTS

There are no significant changes, since the annual MD&A issued for the year ended August 31, 2005, in financial or other instruments.

RISK FACTORS

The Corporation's business risks are the same as disclosed in its annual MD&A issued for the year ended August 31, 2005.

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. Production efforts in not only North America, but worldwide, will drive how DeepWaveSM is commercialized and will affect the Corporation's financial performance in fiscal 2006.



For the remainder of fiscal 2006 and in to fiscal 2007 efforts continue to focus on leveraging the Rogers County project to bring the Corporation to a positive cash flow position. With the closing of the January and May 2006 private placements, the Corporation is searching out and evaluating opportunities for farm-ins, joint ventures, and acquisitions of oil field leases to further demonstrate the efficacy of DeepWaveSM over a broad spectrum of reservoir conditions. It is anticipated that the Corporation will have several DeepWaveSM tools installed at Rogers County for a permanent waterflood. With the successful installation of the DeepWaveSM systems in Rogers County, the Corporation anticipates increased production volumes and revenue.

Given positive results of Halliburton well intervention projects, the Corporation anticipates that Halliburton will continue to expand it's offering of DeepWaveSM well intervention services to the oil and gas communities thus, increasing the Corporation's licensing revenue.