



**Wavefront Energy and Environmental Services Inc.**

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|-------------------------------------|------------------------|
| <input type="checkbox"/>            | <b>Annual Report</b>   |
| <input type="checkbox"/>            | For the fiscal         |
| <input type="checkbox"/>            | year ended             |
| <input checked="" type="checkbox"/> | <b>August 31, 2007</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, 2007 and is based on information available to December 27<sup>th</sup>, 2007. 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).*



## Management's Discussion and Analysis of Financial Condition and Results of Operations

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### 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 of Financial Conditions and Results from Operations are also reviewed and approved by the Audit Committee of the Corporation's Board of Directors. This Management Discussion and Analysis of Financial Conditions and Results from Operations contain information available to December 27<sup>th</sup>, 2007.

### Overview 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 processes in both the environmental and energy sectors.

#### Core Intellectual Property

At the core of the Corporation's strategic value proposition is its patented fluid flow process marketed in the energy sector as Powerwave<sup>TM</sup> and in the environmental sector as Primawave<sup>TM</sup> (collectively known as 'PW' and formerly known and marketed as Deepwave<sup>SM</sup>). PW is an injection process that dramatically improves the flow rate and distribution of fluids in the ground.

PW 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

PW has been successfully applied in heavy and light oil development, as well as in groundwater remedial processes. The method of implementation or system utilized depends upon, among other things, geology and fluid viscosity. The operation of PW systems is specific to suit site specific characteristics. PW can be modified to increase injection and production flow rates, production well efficiency, and oil recovery ratios in a wide variety of configurations.

Groundwater quality remains a concern across the globe and the remediation of groundwater contaminants continues to be a growing industry. Since the physics of fluid flow is similar in shallow groundwater conditions to that of deep reservoirs associated with oil production, Wavefront provides PW as a value added approach to service and consulting companies tasked with site clean-up . PW has also been verified as an environmental remedial strategy by Environment and Industry Canada. The following are some applications of PW in the environmental sector:

- Enhancement of "pump-and-treat" systems to extract contaminants; a similar approach to an oilfield waterflood;
- Improved injection of "in situ" or in-ground remedies, such as the injection of biological, chemical or oxidant agents to neutralize groundwater contaminants; and,
- Rehabilitation of water wells.



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The optimization of PW is dependant upon, among other things, the characteristics of the fluid pressure pulse waveform created. Thus, part of Wavefront's value proposition is to monitor and model PW efficacy in order to maximize its benefits. Wavefront's intellectual property strategy is to maintain absolute control over its PW modeling software known as the "PW Analyzer". The software enables Wavefront to evaluate subsurface parameters enabling key insights into PW system operation and potential outcomes to be estimated.

### Energy and Environmental Sector Applications of PW

- The Corporation continues to maintain 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 Powerwave 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 Powerwave systems for the improvement or enhancement of oil recovery, oil well stimulation and oilfield disposal methodologies.
- The sales cycle of environmental remediation projects has approximated between three to six months. To gain market exposure the Corporation maintains a non-exclusive Technology License Agreement with Environmental Resources Management ("ERM"), and utilizes outside service contractors, companies providing remedial fluids, and outside sales agents to grow Primawave revenue in the environmental sector.

In addition to offering PW services, the Corporation also provides oilfield services for heavy oil production optimization. Effective March 1, 2007, the Corporation acquired (the "Top Gun Acquisition") all of the issued and outstanding shares of Top Gun Sand Pumps & Rentals Ltd. ("Top Gun"), a privately-held Saskatchewan company that provides specialized pumping equipment and services for use in heavy oil wells. Total consideration for the Acquisition was \$1,200,000 (the "Purchase Price"). Of the total Purchase Price, the Corporation paid \$542,250 cash, issued 600,000 common shares in the capital of the Corporation valued at \$1.00 per share, and repaid notes payable in the amount of \$57,750. On the acquisition date the Top Gun name was renamed "Wavefront Sand Pumps & Rentals Ltd." to conform to the Wavefront brand.

### **OVERALL RESULTS FROM OPERATIONS**

Currently the Corporation in managing its business and reporting structure, does so on a consolidated basis, as such, does not present its operational results on a segmented basis.

Fiscal 2007 was a continuation of fiscal 2006 efforts to change the focus of the Corporation to concentrate on the advancement and the commercialization of Powerwave in the energy sector. More specifically, the Corporation focused on pushing the commercialization of its technology by showcasing Powerwave in oilfield assets that the Corporation participates in. The major developments occurring in 2007 included the following:

- The Corporation finalized the development of a portion of the Rogers County, Oklahoma oilfield leases. The resulting injectivity data has lead to or assisted the Corporation in securing recent pilot projects in Alberta, Saskatchewan, Pennsylvania, Texas, Alaska, and the United Kingdom.



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- The Corporation's participation in the Greentree Gas & Oil Ltd. ("Greentree") farm-in agreement, to showcase Powerwave, consumed significant corporate resources. Participation in the Greentree farm-in is providing a second series of data in different geological conditions to assist in pushing the commercialization of the technology in the energy sector.
- The Corporation developed new tool systems to deliver Powerwave in the energy sector. The development of these tools allows the Corporation and its licensees' to deploy Powerwave across a broader range of geological environments, at lower costs, increasing the potential markets for the technology.
- The strategy of showcasing Powerwave in the oilfields the Corporation has participated in, is designed to:
  - Demonstrate the efficacy of Powerwave with a large number of permanently installed systems.
  - Have a site where potential clients may have unencumbered access to observe Powerwave.
  - Provide on-going results as to the efficacy of Powerwave to further support marketing efforts.
  - Increase the Corporation's revenue and asset base.

### Revenues

Revenues for the year ended August 31, 2007 were \$1,537,278. This is an increase of \$773,741 over the comparative period in 2006 that recognized revenues of \$763,537. The increase in revenues is primarily a result of the acquisition of Wavefront Sand Pumps & Rentals Ltd and increased royalty revenues from Halliburton.

The Corporation also recognized production revenue of \$87,683 (2006 - \$16,386) related to the Rogers County venture, and interest income of \$351,803 (2006 - \$225,525). The latter of which resulted from the investment of private placement proceeds from the prior year.

Geographically, \$1,318,738 (2006 - \$437,722) in revenue was generated in Canada, and \$218,540 (2006 - \$325,815) from the USA.

### Direct Expenses

Direct expenses related to revenue increased to \$337,862 (or 34% of gross services and royalty revenue) compared to \$107,875 (or 28% of gross service and royalty revenues) for fiscal 2006. The current year increase in direct costs relates to the service nature of the business associated with the Top Gun Acquisition.

### Other Operating Expenses

Other operating expense for the period amounted to \$3,819,874, compared to \$2,753,200 in 2006. The increase in operating expenses of \$1,066,674 was principally a result of the following changes:

- i. General and administrative expenses, totalling \$2,908,009, comprised the largest increase in operating expenses. The following table provides comparative details for the general and administrative expenses.



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	2007	2006
	\$	\$
Wages, employee benefits, and contract employees	1,438,174	802,289
Professional fees (note 19)	600,329	802,187
Office	435,225	374,688
Consultants	241,086	108,388
Vehicle	107,258	84,670
Repairs and maintenance	71,390	40,869
Bad debts	11,018	-
Miscellaneous	3,529	4,379
	<u>2,908,009</u>	<u>2,217,470</u>

The increases in general and administrative expenses primarily related to the following:

- An increase in “wages, employee benefits, and contract employees” expense of \$635,885 which can be attributed to an increase in wage rates and an approximate 25% increase in the number of staff.
- A decrease in “professional fees” of \$201,858 which was predominately due to the legal and patent research fees associated with the lawsuit against Applied Seismic Corporation (“ASR”) of Plano, Texas. The Corporation in its lawsuit asserted that ASR had tortuously interfered with a pending long-term, multiple system contract for the implementation of Powerwave with Occidental Petroleum of Elk Hills in California. ASR made a counterclaim against the Corporation asserting patent infringement. During the fiscal year, and in an order signed by United States District Judge for the Eastern District of Texas Leonard Davis, it was ordered, adjudged, and decreed that:
  1. Wavefront’s “Dragonfly” tool, either alone or in combination with any other component or process or manner of use, does not infringe any claim of the ASR patents under any theory of infringement including but not limited to direct or indirect infringement, and induced or contributory infringement; and,
  2. Each of the counterclaims asserted by ASR was dismissed with prejudice.

Subsequent to the fiscal year the Corporation launched a lawsuit seeking damages for the above noted lawsuit. Total legal fees related to the ASR litigations has totaled \$112,859.

Other professional fees include legal and due diligence costs associated with the Top Gun Acquisition and the abandoned acquisition ICI Solutions Inc.

- The use of consultants to assist in “pumper” operations and land titles activities related to the Rogers County venture, and the use of head hunters resulted in an increase of \$132,698 in consulting fees.
- An increase in “office” expenses of \$60,537 relates to the operation of offices in Edmonton, Alberta, Cambridge, Ontario, Houston, Texas, Marsden, Saskatchewan, and a site office in Rogers County, Oklahoma.



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- ii. Additional other operating expenses resulted in expense increases amounting to \$376,135, and relate to the following:
- An increase in "selling, marketing, and travel" expense of \$216,862 which relates to increased activity in developing Rogers County, travel related to the ASR lawsuit, and the securing of multiple PW projects across North America.
  - An increase in "amortization, depreciation, depletion and accretion" expenses of \$69,590 which relates to increase in the Corporation's Powerwave and Primawave systems.
  - An increase of "listing and public company fees" of \$88,578 which relates to the hiring of investor relations consultants and associated expenses related to developing a secondary market for the trading of the Corporation's securities.

The changes in operating expenses are a result of the focus on expediting the commercialization of Powerwave and Primawave as well as the Top Gun Acquisition.

### Net Loss and Loss Per Share

The net loss for the year ended August 31, 2007 was \$4,349,901 (\$0.09 per share), compared to \$3,029,897 (\$0.09 per share) in 2006. The net loss is attributed to the change in focus to the commercialization of the Corporations' core Powerwave and Primawave technologies. Offsetting the increased expenses associated with such efforts were the revenues derived from Top Gun Acquisition.

### LIQUIDITY AND CAPITAL RESOURCES

#### Assets and Liabilities

Total assets decreased by \$2,184,642 to \$16,519,754. The decrease in cash however, was partially due to an increase in operating expenses and by the increase in property, plant and equipment, non-participation amounts due and intangible assets.

As at August 31, 2007 the Corporation held a 40% working interest in an aggregate of 780 acres, consisting of four separate oilfield leases, and a 90% working interest in an aggregate of 580 acres, consisting of four separate oilfield leases in Rogers County, Oklahoma. These leases are classified as unproven, and as such are not subject to depletion or depreciation, as the oilfield is still under development.

Additionally, the Corporation held a 100% working interest in an aggregate of 16,079 acres, consisting of multiple oilfield leases in Young County, Texas.

In the prior year, the Corporation let its mineral rights option in Milam County lapse as the oilfield had no production infrastructure in place, and allowed to the Corporation to focus its resources on Rogers County, which had a certain level of production equipment in place.



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The acquisition of oilfield leases is to allow the collection of data, over a range of different geological conditions that can be audited by potential third party Powerwave customers.

Total liabilities increased by \$263,449 to \$1,898,623 from the previous year-end. This was principally due addition of amounts due to shareholders (totalling \$379,093) and lease obligations (totalling \$103,912) related to the Top Gun Acquisition. These amounts however, were offset by decreased \$229,900 in accounts payable and accrued liabilities.

### Liquidity

As at the end of the year, the Corporation had working capital of \$4,981,588. The Corporation believes that its working capital position will continue to fluctuate as management believes positive results related to the pre-commercialization project will require the Corporation to ramp up PW system inventories. Other projects that will affect the Corporation's working capital position include the completion of the developments of Rogers County and Greentree farm-in; however, Management does not expect sizable financial commitments related to these projects in fiscal 2008

### Financings

During the fiscal year, the Corporation did not undertake any equity financing activities. Subsequent to the year ended August 31, 2007 however, the Corporation closed a brokered and concurrent non-brokered private placement for 4,985,678 units ("Units") at a price of \$0.95 per Unit for gross proceeds of \$4,736,394. Each Unit consists of one common share of the Corporation and one-half of one common share purchase warrant ("Warrant"). Each full Warrant is exercisable for one common share of the Corporation at a price of \$1.25 for a period of 12 months from the date of closing. Provided however, the 20 day weighted average price of the Corporation's common shares trade at or above \$1.50, the Warrants must be exercised or will expire within 30 calendar days after notice of such event is mailed to the Warrant holders. Management has estimated total transaction cost of approximately \$477,640, resulting in approximate net proceeds of \$4,258,754 and will be used to initiate the manufacturing of an inventory of Powerwave and Primawave systems for field wide implementation, with the remainder to be set aside for unallocated working capital. All common shares issued in connection with this financing will be subject to a four-month hold period.

The following equity financing activities were undertaken in the prior year:

- 1,959,160 units of the Corporation at a price of \$0.23 for gross proceeds of \$450,607. The 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. In connection with this non-brokered private placement, the Corporation issued 128,696 common shares at a deemed price of \$0.23 as a finder's fee to two arm's length parties. In addition, the Corporation paid filing and legal fees of \$3,225 resulting in net cash proceeds of \$447,382.
- 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 was by two institutions as portfolio managers. The Corporation paid a finders fee in the amount of \$450,079 to an arms length party. In addition, the Corporation paid filing and legal fees of \$48,181 resulting in net cash proceeds of \$9,003,051.



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- 4,485,115 common shares of the Corporation at a price of \$1.80 per common shares for gross proceeds of \$8,073,207. The subscription of the Private Placement was by three institutions as portfolio managers, and private investors. The Corporation paid finder's fees in the amount of \$153,700 to two arm's length parties. In addition, the Corporation paid filing and legal fees of \$43,756 resulting in net cash proceeds of \$7,875,751.

The proceeds from the above private placements were designated to support marketing efforts, to develop new Powerwave systems, to develop mineral properties rights to showcase Powerwave, to support the Halliburton agreements, to initiate the manufacturing of an inventory of Powerwave systems for commercialization efforts and use in oil fields the Corporation participates in, and for unallocated working capital.

In addition, the following convertible securities were exercised to net the Corporation gross proceeds of \$26,326:

- 58,146 incentive stock options were exercised during the period ended August 31, 2007, were at prices ranging from \$0.40 to \$0.50 resulting in gross proceeds of \$26,326, of which none were exercised by directors of the Corporation. The 414,366 incentive stock options exercised during the prior year ended August 31, 2006, were at prices ranging from \$0.40 to \$0.50.

In the prior year 5,890,110 common share purchase warrants that were exercised during the period ended August 31, 2006, were at prices ranging from \$0.35 to \$0.55. Of the common share purchase warrants exercised 1,183,251 were exercised by directors of the Corporation.

Liquidity risk associated with financial instruments is generally related to accounts receivable and non-participation amounts due. The liquidity risk associated with accounts receivable is believed to be low based on the Corporation's history and the customers generally serviced. The liquidity risk associated with the non-participation amounts due however, is related to the production with the initial mineral rights of the Roger County venture.

The Corporation did not default nor was it in arrears on any lease interest or principal payments or loan payments.

### Capital Resources

Currently, the Corporation has the following commitments for capital expenditures:

#### Greentree Farm-in

In the prior year, the Corporation entered into a "Farm-in" Agreement with Greentree Gas & Oil Ltd. to develop Greentree's Rodney South oil field lease. Under the Farm-in Agreement the Corporation will supply its Powerwave technology and fund up to \$2.25 million for initial capital expenditures and working capital requirements. Additional development costs are expected to be financed 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 flows from operating activities will be allocated 70% and 30% to the Corporation and Greentree, respectively, until payout of the Corporation's initial \$2.25 million capital investment.



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Subsequent to payout, cash flow from operating activities will be allotted 50% to the Corporation and Greentree.

As at August 31, 2007, the Corporation has paid Greentree \$1,823,235 (2006 - \$74,663) and accrued \$132,828 (2006 - \$7,464) under the Farm-in Agreement, which has been recorded as a finite life intangible asset on the consolidated balance sheet. The Corporation is obligated to the remaining balance of up to \$293,937 under the Farm-in Agreement.

### Supplier Purchase Obligations

The Corporation is committed to acquiring inventory items totaling \$293,613 from a third party supplier.

In addition, and in accordance with the Corporation's strategic plan, cash resources will be required for the following:

- To build an inventory of Powerwave systems for deployment to external clients for use in waterfloods.
- To support the marketing efforts with, and to train all licensees, on the implementation of Powerwave and Primawave.
- Operation's in the Rogers County leases in proportion to the Corporation's working interest.

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

As of December 28, 2007, there are no amounts owed in respect of the lines of credit and the Corporation had \$7,709,866 of cash on hand.

### CONTRACTUAL COMMITMENTS

The Corporation has entered into long-term contractual arrangements from time-to-time for facilities, lines of credit, and the provision of goods and services. The following table presents contractual obligations arising from these arrangements currently in force:

As at August 31, 2007	Payments Due by Period				
	Total	Less than 1 Year	1 – 3 Years	3 – 5 Years	More than 5 Years
Long-term debt	\$ -	\$ -	\$ -	\$ -	\$ -
Capital lease obligations	103,912	30,081	73,831	-	-
Operating lease obligations	195,394	139,510	55,884	-	-
Supplier purchase obligations	587,550	587,550	-	-	-
Other long-term liabilities	-	-	-	-	-
	\$ 886,856	\$ 757,141	\$ 129,715	\$ -	\$ -

Management is of the opinion that its working capital position of \$4,981,588 as at August 31, 2007 and the financing which closed subsequent to the year end is sufficient to cover its current commitments and operations for the forthcoming fiscal year.



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The majority of expenditures related to Rogers County oilfield and Greentree Farm-in have been incurred. Management does not expect sizable financial commitments related to these projects in fiscal 2008. All future expenditures and investments in capital assets and projects will be governed by the Corporations working capital position throughout the year.

### **OFF-BALANCE SHEET ARRANGEMENTS**

The Corporation has no off balance sheet arrangements.

### **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. During the year ended August 31, 2006, the Corporation repaid the principal balance of \$75,686 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.

Interest expense on long-term amounts due to shareholders for the fiscal year ended August 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. Accrued interest payable at August 31, 2006, owing to directors of the Corporation or to a company controlled by a director and a related party of the Corporation was \$41,796 and was included in accounts payable and accrued liabilities.

Interest expense on short-term notes owing to directors of the Corporation for the fiscal year ended August 31, 2006, totaled \$5,052. Accrued interest payable as at August 31, 2006 was \$5,126 and was included in accounts payable and accrued liabilities.

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 414,366 stock options exercised during the prior fiscal year ended August 31, 2006, 340,200 stock options were exercised by directors of the Corporation at a prices ranging from \$0.44 to \$0.45.

Of the 5,890,110 common share purchase warrants that were exercised during the prior fiscal year ended August 31, 2006, 1,183,251 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.



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In fiscal 2005, 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, Boulder Oil, LLC ("Boulder") 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 Boulder. In consideration of the U.S. \$15,000 deposit paid by the Corporation, it retained a thirty percent (30%) working interest in the leases. Each working interest party is responsible for operating and field development costs in proportions relative to their working interest percentage.

The Corporation has capitalized and included in capital assets its proportionate share of the oil well development costs totaling \$1,786,345 (2006 - \$1,254,293) related to the Rogers County venture. During the fiscal year ended August 31, 2006, the Corporation became the operator of record, and Boulder, as a non-operating partner, exercised its non-participation right in the Joint Operating Agreement. As at August 31, 2007, amounts due to the Corporation by the Boulder totaled \$2,040,896 (2006 - \$1,214,002), and are included in non-participation amounts due. Under the Joint Operating Agreement, the Corporation will receive all production revenues from production wells associated with the costs incurred till such time that the Corporation is repaid 200% of the costs incurred, after which, production revenues will revert back to the working interest proportions.

The Corporation has applied all production revenues attributable to Boulder's proportionate working interest, totaling \$125,936, towards the repayment of "non-participation amounts due". No amounts have been attributed to interest revenue as any allocation is reliant on a reservoir reserves report which will not occur until an independent engineering firm can accurately quantify proven reserves in the Rogers County oilfield.

### **PROPOSED TRANSACTIONS**

At the time of the report the Corporation has no proposed transaction.

### **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 Powerwave is commercialized and will affect the Corporation's financial performance in fiscal 2008.

Efforts for fiscal 2008 will focus on assuring existing and pending Powerwave projects in Alberta, Texas, Alaska, the United Kingdom, and elsewhere move to full commercialization. In moving the Corporation to a positive cash flow position principal effort will be extended to: (1) increasing cash flow from production operations and licensing; (2) the strategic acquisition of complimentary companies and technologies, (3) implement field-wide Powerwave waterflood projects with mainstream producers; (4) expand the business of Wavefront Sand Pumps & Rentals Ltd.; and, (5) building a sound distribution network of service providers and consulting companies to deliver Primawave to the environmental user community.



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### RISK AND UNCERTAINTIES

*No History of Earnings* - The Corporation 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* – The Corporation may require additional financing in order to make further investments in the technology or to fund unanticipated demand, to take advantage of unanticipated opportunities, to fund the acquisition of additional oil field assets, 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 PW, to become engaged in the upfront financing of certain PW jobs in return for a share of the benefits of the process 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* – PW 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 PW technology has been obtained to date in heavy oil environments with limited results in light oil and groundwater 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.

*Technology Risks* – Although the results of research, development, and field installations have demonstrated the PW Process to be viable, there is no guarantee that the Corporation's technology will be successful or be applied successfully in all cases. Although the Corporation 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 PW project 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 PW Process to generate the intended benefits even in isolated circumstances could have an adverse effect on or slow, market acceptance.

*Oil Development and Production Risks* – Inherent in the development and production of oil reserves are risks, among others, of drilling dry holes, encountering production or drilling difficulties or experiencing high decline rates in producing wells and reservoir performance uncertainties. In addition, a major market risk exposure is in the pricing applicable to oil production. Realized pricing is primarily driven by the prevailing worldwide price for crude oil and spot prices applicable to the Corporation's oil production. Prices for oil production have been and remain volatile and unpredictable. If oil prices decline significantly, even for a short period of time, it is possible that a non-cash write-down of oil property and related assets could occur under the full-cost accounting method allowed by the Canadian Institute of Chartered Accountants.

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



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*Volatile Commodity Markets* - The marketability of the Corporation'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 PW would be rendered unconvincing.

*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 effects 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 PW Process, will require additional management expertise and will place increased demands on the Corporation'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 the Corporation's success.

*Patents* - The Corporation'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. The Corporation has received five patents, and is actively pursuing applications for broader international patent protection. Furthermore, there can be no assurance that others will not independently develop similar products, which duplicate any of the Corporation's technology or products or, if patents are issued to the Corporation, design around those patented products developed by the Corporation. 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.



## **Management's Discussion and Analysis of Financial Condition and Results of Operations**

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*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.

*Environmental Matters* – Currently the Corporation supplies and licenses oilfield and environmental remediation products and services. Therefore, 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.

### **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

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 significant accounting policies that are believed to be the most critical in fully understanding and evaluating the reported financial results are described below. Significant accounting policies are disclosed in Note 2 of the notes to the audited consolidated financial statements.

#### **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 oilfield services is recognized when the underlying services are provided. Revenue from the sale of rental tools is recognized when the equipment is delivered and accepted by third party customers.
- (b) Licensing royalties or technology fees are recognized on a percentage of completion bases as the underlying contracts are for a set time period. Percentage of completion is determined by relating the amount of time a 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 as when the title passes to third parties.



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### **Oilfield Property, Plant and Equipment**

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 non-participation amounts due and an offset to operating expenses and oil well development costs.

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. The process of estimating reserves is complex and requires judgment based on available geological, engineering and economic data. Until there is sufficient, reliable, production data for review by an independent engineering firm, the Corporation cannot provide estimates of proved reserves. No depletion or depreciation of the oilfield mineral rights has been recorded at August 31, 2007.

In the prior year, the Corporation had let its Milam County mineral right option lapse. Thus, the Corporation wrote off the Milam County mineral rights in the amount of \$12,626. At August 31, 2007, Management believes that there should be no impairments of the Rogers County mineral rights.

### **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. Unit-of-production requires that proved reserves associated be determined, as such no amortization of the asset retirement cost has been recorded at August 31, 2007.

### **Intangible Assets**

The Corporation recognizes the fair value of estimated asset retirement obligations on the consolidated balance sheet when

### **CHANGES IN ACCOUNTING POLICIES**

As at August 31, 2007, the Corporation has not made any changes to its accounting policies.



## **Management's Discussion and Analysis of Financial Condition and Results of Operations**

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### **FINANCIAL AND OTHER INSTRUMENTS**

The Corporation's significant financial and other instruments consist of accounts receivable, accounts payable and accrued liabilities and interest bearing obligations such as its operating line, obligations under capital lease, amounts due to shareholders, asset retirement obligations and other amounts that will result in future cash outlays.

#### **Credit Risk**

Credit risk arises from the potential that counterparty will fail to perform its obligations. The Corporation's financial instruments that are exposed to concentrations of credit risk consist primarily of accounts receivable and non-participation amounts due. 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 dispersed 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.

Concentrations of credit risk with respect to non-participation amounts due are related to the original mineral rights for the Rogers County Venture and are based on production of that venture.

#### **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, and the operational expenses and production revenue of the Rogers County venture. 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.

#### **Fair value of financial instruments**

The carrying value of the Corporation's 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.



## Management's Discussion and Analysis of Financial Condition and Results of Operations

### SUPPLEMENTARY INFORMATION

#### Selected Annual Information

The following is selected annual consolidated financial information from the Corporation's audited financial statements for each of the three most recently completed years ended August 31:

	2007	2006	2005
Revenues	\$ 1,537,278	\$ 763,537	\$ 1,334,284
Loss from operations	2,620,458	2,097,538	1,445,050
Net loss	4,349,901	3,029,897	1,607,731
Basic and diluted loss per share	\$ 0.09	\$ 0.09	\$ 0.06
Weighted average number of common shares outstanding	47,937,111	34,940,952	25,250,710
Working capital	\$ 4,981,588	\$ 13,206,359	(1,237,260)
Total assets	16,519,754	18,704,396	932,567
Total long term financial liabilities	376,177	62,668	65,520
Total liabilities	\$ 1,833,749	\$ 1,635,174	\$ 1,580,903
Shares outstanding at August 31	48,572,112	47,913,796	27,998,341

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

(2) In Canadian dollars, except share data

(3) Prior years figures have reclassified to conform to current presentation

For fiscal 2007, the Corporation continued its focus on the commercialization of PW, its core strategic value proposition. Part of that strategic focus involved "pushing" the technology to the market place through service providers, and resulted in the Corporation acquiring Top Gun. The Top Gun Acquisition has also resulted in the Corporation increasing its revenue stream.

Results and the associated increases in expenses with operating an oilfield has also provided strategic advantages as the Corporation has used the compelling Powerwave data to attract significant pre-commercialization projects, which vary in duration between 6 to 12 months. Successful results from these pre-commercialization projects could result in numerous Powerwave systems being installed in various oilfields with various oil producers.

Total Assets at the end of 2007 were lower than 2006 due to increases in capital resources being consumed to fund commercialization efforts. It is anticipated that additional resources in the forthcoming year will be used to build inventories of PW systems in anticipation of full commercialization in both the energy and environmental sectors.



## Management's Discussion and Analysis of Financial Condition and Results of Operations

### Summary of Quarterly Results

	4th Qtr Aug 31 '07	3rd Qtr May 31 '07	2nd Qtr Feb 28 '07	1st Qtr Nov 30 '06	Annual
<b>Fiscal 2007</b>					
Revenue	\$ 467,863	\$ 711,538	\$ 169,020	\$ 188,857	\$ 1,537,278
Loss from Operations	777,005	569,029	674,973	599,451	2,620,458
Net Loss	\$ 1,234,352	\$ 1,042,086	\$ 1,025,658	\$ 1,047,805	\$ 4,349,901
Basic and diluted loss per share	\$ 0.028	\$ 0.020	\$ 0.020	\$ 0.022	\$ 0.090
Common shares outstanding					
Weighted average shares outstanding	47,937,111	47,927,816	47,918,911	47,913,796	47,937,111
Diluted shares outstanding					
	4th Qtr Aug 31 '06	3rd Qtr May 31 '06	2nd Qtr Feb 28 '06	1st Qtr Nov 30 '05	Annual
<b>Fiscal 2006</b>					
Revenue	\$ 294,863	\$ 203,345	\$ 169,972	\$ 95,357	\$ 763,537
Loss from Operations	810,182	540,336	413,121	333,899	2,097,538
Net Loss	\$ 1,302,976	\$ 801,700	\$ 573,273	\$ 351,948	\$ 3,029,897
Basic and diluted loss per share	\$ 0.035	\$ 0.024	\$ 0.020	\$ 0.012	\$ 0.090
Common shares outstanding					
Weighted average shares outstanding	34,940,952	33,926,976	31,818,243	30,388,119	34,904,952
Diluted shares outstanding					

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

(2) All amounts in Canadian dollars except share data

(3) Prior period loss from operations have reclassified to conform to current presentation.

### FOURTH QUARTER RESULTS FOR THREE MONTHS ENDED AUGUST 31, 2007

#### Revenues

Revenues for the three months ended August 31, 2007 were \$467,863, an increase of \$173,000 over the comparative period in 2006 that recognized revenues of \$294,863. The increase in revenues is primarily a result of the revenues resulting from the acquisition of Wavefront Sand & Pumps Rentals Ltd.

#### Direct Costs

Direct expenses for the three month period end August 31, 2007 of \$181,874 primarily relate to those direct costs related to the rental and sales of rental tools of Wavefront Sand Pumps & Rentals Ltd.



## Management's Discussion and Analysis of Financial Condition and Results of Operations

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### Other Operating Expenses

Other operating expense for the three months end August 31, 2007 amounted to \$1,062,944, compared to \$1,105,521 in 2006. The decrease in operating expenses of \$87,189 was principally a result of the following changes:

- i. General and administrative expenses decreased by \$159,517 to \$794,117, and relates to the following:
  - A decrease in "professional fees" of \$276,250 to \$175,762. The decrease relates to the current period fees being limited to the legal fees association with the Corporation's bid to acquire ICI Solutions Ltd. (which the Corporation withdrew its offer to purchase), securities and corporate lawyer, and audit and professional advisory fees, etc., whereas the prior period fees were abnormally high due to the legal fees associated with the ASR legal fees.
  - An increase in "wages, employee benefits, and contract employees" expense of \$131,720, which can be attributed to higher wage rates and more staff employed for the quarter.
  - A decrease in "office" expenses of \$65,968 to \$125,439. Prior period office expenses were higher a result due to the establishment of a site office in Rogers County, Oklahoma and an office in Houston, Texas. Additionally, the costs increase relates to the relocation of the Corporation's head office within Edmonton, Alberta.
  - An increase in "repairs and maintenance" fees of \$21,934 to \$33,060, which relates to the increased activities associated with Wavefront Sand Pumps & Rentals Ltd.
  - An increase in "consultant" fees of \$21,001 to \$47,756, which relates to the increased use of consultants in Rogers County and in the design and development of PW tools.
- ii. Additional other operating expense variances amounting to \$72,329, relate to the following:
  - An increase in "listing and public company fee" of \$31,373 to \$43,956, which relates to having investment relations consultant to help increase the Corporation's shareholder base.
  - An increase in "amortization, depreciation, depletion and accretion" expense of \$27,637 to \$89,013, which relates to the corresponding increased number of Powerwave and Primawave systems and the depletion of a net over-riding royalty agreement with Greentree.
  - An increase in "selling, marketing and travel" expense of \$20,610 to \$118,400, which relates to increased business activity related to the pre-commercialization projects in Alberta, Saskatchewan, Alaska, Texas, the United Kingdom and others.

The changes in operating expenses are a result of the focus on expediting the commercialization of Powerwave and Primawave as well as the Top Gun Acquisition.

### Net Loss and Loss Per Share

The net loss for the three months ended August 31, 2007 was \$1,234,352 or \$0.028 per share, compared to \$1,302,976 or \$0.035 for the comparative period in 2006.



## Management's Discussion and Analysis of Financial Condition and Results of Operations

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### Description of share capital

As at August 31, 2007, the Corporation's share capital consists of the following:

<b>Common shares</b>	
Authorized:	unlimited
Issued and outstanding:	
Free trading	48,032,112
Escrow shares	<u>540,000</u>
	48,572,112
Convertible into common shares	
Share purchase warrants	-
Incentive stock options	<u>3,017,773</u>
	<u>3,017,773</u>
Fully diluted share capital:	<u>51,589,885</u>

The above noted escrow shares are subject a value escrow agreement is related to the Top Gun Acquisition. 60,000 of the escrow shares have been released as at August 31, 2007.

### 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.

### Options outstanding

<b>Date Granted</b>	<b>Expiry Date</b>	<b>Number of incentive stock options</b>	<b>Price per share</b>
August 1, 2006	August 1, 2011	175,000	\$ 1.76
September 1, 2005	September 1, 2010	240,000	\$ 0.40
June 1, 2005	June 1, 2010	90,018	\$ 0.40
April 30, 2004	April 30, 2009	210,000	\$ 0.44
March 6, 2007	March 6, 2012	185,000	\$ 0.97
October 5, 2004	October 5, 2009	407,755	\$ 0.45
January 15, 2004	January 15, 2009	50,000	\$ 0.50
September 30, 2003	September 30, 2008	610,000	\$ 0.50
November 30, 2003	November 30, 2008	125,000	\$ 0.55
May 15, 2006	May 15, 2011	200,000	\$ 2.57
January 11, 2006	January 11, 2011	<u>725,000</u>	\$ 2.95
		<u>3,017,773</u>	



## Management's Discussion and Analysis of Financial Condition and Results of Operations

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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.

### Options granted during the period

Date of Grant	Number of Shares	Optionee	Exercise Price	Expiry Date
March 6, 2007	115,000	Employee	\$ 0.97	March 6, 2012
March 6, 2007	90,000	Directors	\$ 0.97	March 6, 2012
	205,000			

### Warrants outstanding

As at August 31, 2007, no common share purchase warrants were outstanding. During the prior fiscal year all common share purchase warrants were exercised or cancelled.

### DISCLOSURE CONTROLS

The Chief Executive Officer and Chief Financial Officer are responsible for designing internal control over financial reporting or causing it to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principals. There are inherent weaknesses in the systems of internal control due to the small size of the Corporation and its inability to segregate incompatible functions and use of manual systems as a result. The Corporation plans to remediate these weaknesses by expanding the number of individuals involved in the accounting function as the Corporation grows and by implementing new accounting related software. Effective disclosure controls and procedures are achieved, despite these weaknesses internal controls over financial reporting, because of the Chief Financial Officer's direct involvement in the disclosure controls and procedures process.

### 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 Powerwave and Primawave (formerly known as Pressure Pulsing Technology) technologies, 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 Discussion and Analysis of Financial Condition and Results of Operations**

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### **ADDITIONAL INFORMATION**

Additional information regarding Wavefront Energy and Environmental Services Inc. can be found on System for the Electronic Document Analysis and Retrieval ("SEDAR" at [www.sedar.com](http://www.sedar.com)).