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**Wavefront Energy and Environmental Services Inc.**

- First Quarter Report**
- For the three month
- period ended
- November 30, 2006**

**NOTICE OF AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS**

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

The Corporation's independent auditor has **not** performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

The following discussion and analysis of financial results should be read in conjunction with the unaudited financial statements and the accompanying notes for the period ended November 30, 2006 and is based on information available to January 31, 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 January 31<sup>st</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 improved oil recovery and expedited groundwater remediation.

#### Core Intellectual Property

At the core of Wavefront'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'). PW is an injection process that dramatically improves the flow rate and distribution of liquids 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, as well as in groundwater. The method of implementation or system utilized depends upon, among other things, the geology and fluid viscosity. The operation of PW system must be specific to suit the geological situation. PW 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 utilizes a scaled-down PW system for groundwater remediation. 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:



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

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- Enhancement of “pump-and-treat” systems to extract the contaminant; a similar methodology 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 the groundwater contaminant; and,
- Rehabilitation of water wells.

The optimization of PW is dependant upon, among other things, the frequency and amplitude of the fluid waveform created. Thus, part of Wavefront's value proposition is to monitor and model, and optimize PW outcomes. 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 reservoir characteristics and provides key insights into the optimized waveform required for the desired outcome in any given geological setting.

### Energy Sector Applications of the Powerwave Process

Wavefront 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 Halliburton agreements will assist Wavefront in the following:

- Expedite the adoption rate of Powerwave by utilizing Halliburton's sales network;
- Eliminate potential Powerwave system manufacturing and implementation bottlenecks;
- Provide the Corporation and Powerwave with greater credibility; and,
- Through the Collaboration Agreement, expand the markets for Powerwave by having different systems that can operate in different geological environments.

### Environmental Sector Application of Primawave 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”), and AIM Environmental Group Ltd. (“AIM”) non-exclusive rights to market Primawave in the environmental sector. Wavefront also has one registered sales agent in Finland promoting the technology to the user sector. Utilization of licensing and securing outside agents has allowed Wavefront to gain market exposure for Primawave while limiting the resources required growing a revenue stream from the environmental sector. The sales cycle of environmental remediation projects has approximated between three to six months.



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

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### RESULTS OF OPERATIONS

#### Consolidated Results – three months ended November 30, 2006

##### *Revenues*

Revenues for the three months ended November 30, 2006 was \$188,857, an increase of \$93,500 from the revenue recognized in corresponding period of November 30, 2005 of \$95,357. The increase in revenue however, is a result of the increase in 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 Powerwave showcasing the technology in oilfields where the Corporation has acquired mineral rights. Approximately 18% of revenues for the quarter were generated from activities associated with the Powerwave technology, and 21% of revenue was generated from activities related to the activities and production of Rogers County, Oklahoma and Greentree Farm-in (see Capital Resource below). Gross profit as a percentage of revenue was 87% for the three month period and is greater than that for the comparative period of last year of 41% principally due to increased Powerwave and interest income revenues that have little direct costs.

##### *General & Administrative Expenses*

The Corporation's general and administrative expenses through the three month period were \$1,160,978, an increase from the \$389,186 incurred for the same period of the comparative period (the three months ending November 30, 2005).

General and administrative expenses increased by \$771,792, primarily due to increases in wages expense of \$509,972, travel and promotion of \$95,695, professional fees of \$89,520, and consulting fees of \$51,532. The aforementioned variances in expenses reflect the following:

- The inclusion of the fair value of stock option valuation as an employee wage expense approximated \$391,213 for the three months ended November 30, 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.
- The Corporation's involvement in developing the Rogers County oilfield to showcase Powerwave. This includes increases in the number of staff employed, associated wage rates, and maintaining an office in Houston, Texas to better react to operations in Rogers County as well as seeking business development opportunities.
- The increase in professional fees relates to the use of executive search consultants to hire a senior petroleum engineer to both assist in the management of current oilfield assets, and to conduct due diligence in the assessment, valuation and bidding on potential oilfield acquisitions. Professional fees for the reporting period also included legal expenses related to the Applied Seismic Research Corporation lawsuit (as reported in the August 31, 2006 annual report), legal work related to placing bids for oilfield acquisitions, and work on the Corporation's licensing and collaboration agreements.



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

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- The use of external consultants to assist the Corporation in the assessment, valuation and bidding on potential oilfield acquisitions, and geological studies related to the Rogers County venture.
- The increase in travel and promotion relates to efforts to bring the Rogers County into production mode, perform due diligence related to the acquisition of an additional oilfield, and business development activities in the United States.
- Efforts associated with the development of new Powerwave tools.
- The successful collaboration of a coiled tubing Powerwave tool with Halliburton Energy Services had allowed the Corporation to reduce its research and development costs in the short-term. These costs however, are expected to marginally increase as the Corporation develops additional tools for use in well stimulation, waterfloods, disposal wells, etc. The new generation tools will be an addition to the Powerwave systems ("Dragonfly" tool) the Corporation is currently deploying or tools it will be co-developing with Halliburton.

### *Net Loss and Loss Per Share*

The net loss for the three months ended November 30, 2006 was \$1,047,805 (\$0.02 per share), compared to \$351,948 (\$0.01 per share) in 2005. The increased losses were a result of focusing resources on having an oilfield to showcase Powerwave, which affected short-term revenue in favour of longer-term oil production revenue. Additionally, the losses of the Corporation were impacted by stock based compensation. The Corporation expects financial results to improve, moving towards profitability, as Powerwave licensing revenues and oil production revenues from mineral rights increase, while operating costs are expected to remain relatively stable.

## LIQUIDITY AND CAPITAL RESOURCES

### **Assets and Liabilities**

Total assets decreased by \$1,189,123 to \$17,515,273, which was principally due to supporting activities associated with Rogers County venture in Oklahoma.

Total liabilities decreased by \$532,531 to \$1,102,643 from the year-ended August 31, 2006. This was principally due to the reduction of accounts payable and accrued liabilities

The decrease in accounts payable and accrued liabilities of \$539,579 relate to payment of expenses related to the assumption of operations of Rogers County. With the assumption of operations of Rogers County, the Corporation initially incurs one hundred percent of operating and developing costs and then reduces this amount by its working interest partner's proportionate share at a later date, thereby creating either a receivable or non-participation amounts due.

### **Off-Balance Sheet Arrangements**

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



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

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### Liquidity

As at the end of the reporting period, the Corporation had working capital of \$13,600,456. The Corporation initially will see its working capital decrease as the developments of Rogers County and farm-in with Greentree advance, the acquisition of the Top Gun, Oil Enhancement Tools and ICI Solutions (see Proposed Transactions below), and the successful acquisition of additional oilfield assets.

Given the upfront costs associated with building Powerwave systems, the Corporation has continued its policy of requiring customers to provide a deposit upon execution of a purchase order, allowance for expenditure, or contract. This assists the Corporation in better managing its cash flow and requires less external working capital financing.

### Financings

During the reporting period no financing activities took place.

In the comparative reporting period ended November 30, 2006 however, the Corporation closed the following private placements:

- 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.

The proceeds from the above private placement have been designated to support Halliburton's marketing efforts, to collaborate on new Powerwave systems, to develop mineral properties rights to showcase Powerwave, to initiate the manufacturing of an inventory of Powerwave systems for a field-wide implementation and for unallocated working capital.

In addition, in the comparative period ended November 30, 2005, the following convertible securities were exercised to net the Corporation gross proceeds of \$837,083:

- 82,783 incentive stock options were exercised at prices ranging from \$0.40 to \$0.50 resulting in gross proceeds of \$36,141, of which 68,200 were exercised by a director of the Corporation.
- 1,979,660 common share purchase warrants were exercised at prices ranging from \$0.35 to \$0.55 resulting in gross proceeds of \$800,942, of which 375,276 were exercised by directors of the Corporation.



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

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Liquidity risk associated with financial instruments, which is generally related to accounts receivable and non-participation amounts due. The liquidity risk associated with accounts receivable is believed to be very 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. Interest remains outstanding on notes payable is due and payable on demand. It is anticipated that the accrued interest will be paid in the near term.

### Capital Resources

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

At August 31, 2006, the Corporation entered into a "Farm-in" Agreement with Greentree Oil and Gas Ltd. ("Greentree") to develop Greentree's Rodney South oilfield 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.

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

As at November 30, 2006, the Corporation has paid Greentree an aggregate of \$409,703 accrued \$49,578 under the Farm-in Agreement, which has been recorded as capital assets on the consolidated balance sheet. The Corporation is obligated to the remaining balance of up to \$1,790,719 under the Farm-in Agreement.

In addition, and 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 Powerwave systems. The research and development of such systems allows the Corporation (and Halliburton) to expand the types of potential applications that Powerwave can be used in.
- To support the marketing efforts with, and to train licensees, on the implementation of Powerwave Primawave.
- To further develop the Rogers County lease in proportion to the Corporation's working interest.
- To build an inventory of Powerwave systems for deployment in Rogers County, Oklahoma, in Rodney, Ontario, and for license to external clients for use in waterfloods.
- To fund, should they close, the Top Gun, OET and ICI acquisitions (see Proposed Transactions below) and provide capital to grow their market and revenue base.



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

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

As of January 31, 2007, there are no amounts owed in respect of the lines of credit and the Corporation had \$11,365,492 of cash on hand.

### TRANSACTIONS WITH RELATED PARTIES

During the period ended November 30, 2006, the Corporation had the following related party transactions:

- i. The Corporation incurred charges for wages, employee benefits, and consultants totaling \$97,434 (2005 - \$77,201) that were paid to significant shareholders or a company controlled a party related to a director of the Corporation. At the end of the period, no amounts (2005 - nil) were included in the accounts payable and accrued liabilities.
- ii. In connection with the September 1, 2005 non-brokered private placement, whereby the Corporation issued 1,595,069 units at a price of \$0.23 per unit for gross proceeds of \$450,586. Each unit consisting of one common share and one share purchase warrant expiring on September 1, 2007. A director of the Corporation subscribed for 276,676 units for total subscription proceeds of \$63,635.
- iii. During the period there were no exercises of incentive stock options by related parties (2005 - 68,200 incentive stock options were exercised at a price of \$0.44 for aggregate consideration \$30,008).
- iv. During the period there were no exercises of common share purchase warrants by related parties (2005 - 375,276 common share purchase warrants were exercised at a prices ranging from \$0.44 to \$0.45 for aggregate consideration of \$169,960).

In the prior period, the Corporation entered into an Option Agreement (the "Option Agreement") to acquire ninety percent (90%) of the working interest in the production, equipment and mineral leases of Phoenix Oil, LLC of Claremore, Oklahoma, for 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 an initial thirty percent (30%) working interest in the leases. The Corporation acquired an additional ten percent (10%) working interest in the Rogers County venture exchange for \$214,352 owed from a third party. Each working interest party is responsible for operating and field development costs in proportions relative to their working interest percentage.



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

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For the reporting period, the Corporation has capitalized and included in capital assets its proportionate share of the oil well development costs totaling \$196,458 (2005 - \$36,356) related to the Rogers County venture. During the fiscal year ending 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 November 30, 2006, amounts due to the Corporation by the Boulder totaled \$1,592,774 (2005 - \$7,580), 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.

### PROPOSED TRANSACTIONS

During the year ended August 31, 2006, the Corporation entered into 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.

As well during the year ended August 31, 2006, the Corporation also entered into 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 U.S. \$250,000 (the "Purchase Price"). In connection with entering into the Letter of Intent, the Corporation advanced a U.S. \$100,000 refundable deposit (the "OET Deposit"). The OET Deposit is secured by a demand promissory note, with the membership units or shares in OET placed in trust with the Corporation's lawyers. Upon closing of the OET Acquisition, the Corporation will issue common shares in its capital, such value equal to U.S. \$100,000 of the purchase price, based on the closing share price of Corporation's listed common shares on the TSX on the trading day prior to the execution date of the Purchase Agreement(s) and the balance of U.S. \$50,000 in cash.

In addition, and subsequent to the reporting period, the Corporation entered into a Letter of Intent to acquire a 100% undivided interest in ICI Solutions Inc. ("ICI Acquisition"), an arms length privately held Alberta company. Total consideration for the ICI Acquisition will not exceed Sixteen Million Dollars (Cdn \$16,000,000) (the "ICI Purchase Price"). Of the total ICI Purchase Price, the Corporation will issue common shares in its capital, such value equal to fifty percent (50%) of the Purchase Price (i.e., up to CDN\$8,000,000), based on the closing share price of the Corporation's listed common shares on the TSX Venture Exchange on the trading day prior to the execution date of the Purchase Agreement(s). In addition, ICI Solution's principals have agreed to have all shareholder advances, loans, debts, interest, etc. to be restructured as unsecured and non-interest bearing, to be repaid over three (3) years.

The common shares to be issued by Wavefront will be subject to the required hold periods, escrow restrictions, earn-out profits or other restriction that the TSX Venture Exchange may impose.



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

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

### **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 2007.

Efforts for fiscal 2007 will be focused on bringing the Corporation to a positive cash flow position. We will endeavor to accomplish this through (1) increased cash flow from production operations and licensing; (2) actively acquiring additional assets that fit the business model of Powerwave; (3) the strategic acquisition of complimentary companies and technologies, and (4) implement a field-wide Powerwave waterflood project with mainstream producers.

### **RISK FACTORS**

The Corporation's business risks are the same as disclosed in its annual MD&A issued for the year ended August 31, 2006.

### **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:



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

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- (a) Licensing royalties or technology fees are recognized on a percentage of completion bases as the underlying PW contracts are for a set time period. Percentage of completion is determined by relating the amount of time a PW system has been operating to the total contracted amount of time the system will be operating. Any project loss is recognized immediately.
- (b) 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.

### **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, 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. 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, 2006.

### **CHANGES IN ACCOUNTING POLICIES**

There have been no changes in any accounting policies.

### **FINANCIAL AND OTHER INSTRUMENTS**

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



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

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### **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 and the dispersion of these customers across geographic areas. Credit risk, with respect to accounts receivables in Canada and the United States, is also limited due to the Corporation's credit evaluation and cash management processes.

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

#### Summary of Quarterly Results

	1st Qtr Nov 30 '06	4th Qtr Aug 31 '06	3rd Qtr May 31 '06	2nd Qtr Feb 28 '06
Revenue	\$ 188,857	\$ 294,863	\$ 203,345	\$ 169,972
Loss from Operations	997,006	1,245,512	821,883	553,911
Net Loss	\$ 1,047,805	\$ 1,302,976	\$ 801,700	\$ 573,273
Basic and diluted loss per share	\$ 0.022	\$ 0.035	\$ 0.024	\$ 0.020
Common shares outstanding				
Weighted average shares outstanding	47,913,796	34,940,952	33,926,976	31,818,243

	1st Qtr Nov 30 '05	4th Qtr Aug 31 '05	3rd Qtr May 31 '05	2nd Qtr Feb 28 '05
Revenue	\$ 95,357	\$ 123,387	\$ 469,616	\$ 419,170
Loss from Operations	350,065	452,468	392,249	317,808
Net Loss	\$ 351,948	\$ 447,248	\$ 400,202	\$ 376,067
Basic and diluted loss per share	\$ 0.012	\$ 0.009	\$ 0.020	\$ 0.015
Common shares outstanding				
Weighted average shares outstanding	30,388,119	25,250,710	25,005,307	24,261,881

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

(2) All amounts in Canadian dollars except share data

### 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 limitations 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 remedy these limitations 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 limitations in internal controls over financial reporting, because of the Chief Financial Officer's direct involvement in the disclosure controls and procedures process.



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

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### 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) technology, demand for products and services, fluctuations in the market for oil and gas related products and services, the ability of Wavefront to attract and maintain key personnel, technology changes, global political and economic conditions, and other factors that are described in further detail in Wavefront's continuous disclosure filings.*

Powerwave and Primawave are registered trademarks of Wavefront Energy and Environmental Services Inc.