



Wavefront Energy and Environmental Services Inc.

■	Third Quarter Report
■	For the nine month
■	period ended
□	May 31, 2008

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

The following Management Discussion and Analysis ("MD&A") of financial results should be read in conjunction with the unaudited interim financial statements and the accompanying notes for the period ended May 31, 2008, the audited financial statements and accompanying notes thereto, and MD&A for the year ended August 31, 2007. This MD&A is based on information available to July 28, 2008. Additional information on Wavefront Energy and Environmental Services Inc.'s (the "Corporation" or "Wavefront") is available on SEDAR at www.sedar.com.



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

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 of 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 of Operations contain information available to July 28, 2008.

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 and processes for injection and recovery of fluids in both the environmental and energy sectors. At the core of the Corporation's strategic value proposition is its patented fluid flow process marketed in the energy sector as Powerwave™ and in the environmental sector as Primawave™ (collectively known as 'PW' or "the technology").

The Corporation's business model is to create a recurring revenue stream by licensing its process patents to the user community for fixed durations. In licensing the technology, the Corporation provides the end users a PW system to carry out the licensed process. As such the Corporation capitalizes the PW systems. As the value proposition to the end client is in the process, at no time are the Corporation's systems transferred or otherwise sold to third parties.

Powerwave has been successfully applied in heavy and light oil development. Powerwave has also been proven to be an effective method of increasing injection and production flow rates, production well efficiency, and oil recovery ratios in a wide variety of configurations through the following techniques:

Short-term Well Intervention Applications

- Well bore clean-up
- Chemical and acid treatments
- Remedial sand control

Long-term Stimulation Applications

- Add-on to all flooding approaches (water, CO₂, surfactant, polymer) to maximize recovery factor and extend field life
- Add-on to water disposal wells

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 Primawave as a value added approach to service and consulting companies tasked with site clean-up. Primawave has also been verified as an environmental remedial strategy by Environment and Industry Canada. The following are some applications of Primawave in the environmental sector:

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



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Whether employed in the oil or environmental sector the method of implementation of PW is specific to suit site characteristics and depends upon, among other things, the characteristics of the fluid pressure pulse created. Part of Wavefront's value proposition is to monitor and model PW efficacy in order to maximize its benefits. Thus, Wavefront's intellectual property strategy is to maintain absolute control over its PW modeling simulator known as the "PW Analyzer". The simulator enables Wavefront to generate estimations on potential outcomes of PW programs over a wide and varied range of geological conditions and to provide those estimations to customers as a means of planning PW implementation strategies.

Energy and Environmental License Agents 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 oil field 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 as a fluid flow enhancement technology, the Corporation also provides oil field services for heavy oil production optimization. Effective March 1, 2007, the Corporation acquired (the "Acquisition") all of the issued and outstanding shares of Top Gun Sand Pumps & Rentals Ltd. ("Top Gun"), a privately-held Saskatchewan company that rents and sells 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." ("Wavefront Sand Pumps") to conform to the Wavefront brand.

During the prior reporting period the Corporation revised its estimates associated with the purchase price allocation for the Top Gun Acquisition. The finalization of the purchase price allocation included the assignment of \$375,161 to property, plant and equipment which Top Gun had previously expensed as apposed to being capitalized and amortized. The property, plant and equipment consists mainly of rental (i.e., pumping equipment for use in heavy oil wells) and shop equipment, and is now being amortized consistently with the Corporations other property plant and equipment. Any sale of rental equipment is recognized as a gain or loss on the disposition of property, plant and equipment.

In addition to the above revision to the Top Gun property, plant and equipment, the Corporation revised the carrying value of the non-interest bearing Shareholder notes, discounting the principal outstanding by \$147,325, such that the Corporation is accruing interest at 8.5% on the Shareholder notes payable. The accruing of interest had an affect of increasing interest for the current quarter by \$22,088. Interest expense related to the Shareholder notes will approximate \$3,058 for the remainder of the fiscal year.



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RESULTS OF OPERATIONS

The third quarter of fiscal 2008 was a continuation of the Corporation's strategy of showcasing Powerwave and Primawave to acquire auditable data on the affect of the technology to push technology adaptation. The strategy is designed to:

- Demonstrate the efficacy of Powerwave with a large number of permanently installed systems.
- Have sites where potential clients may have unencumbered access to observe Powerwave.
- Provide on-going results as to the efficacy of Powerwave and Primawave to further support marketing efforts.
- Increase the Corporation's revenue and asset base.

Rogers County has continued to meet the corporate objectives of showcasing Powerwave and tool durability. Injectivity in Rogers County has increased from pre-Powerwave to post Powerwave by a factor of two. Production in Rogers County is currently limited to 40 stripper production wells in 250 acres of total 1,370 acres under lease (Oil wells are generally classified as stripper wells when they produce ten barrels or less per day or less for any twelve month period). For the nine month period ended May 31, 2008, the Corporation recognized its proportion of production revenue totaling \$73,898 related to Rogers County.

Other production revenue from Rogers County in the amount of \$154,357 originally attributable to Boulder Oil LLC ("Boulder"), a related party, has been applied against the principal balance of the non-participation amounts due (see the notes 6 and 13 to the financial statements for the period ended May 31, 2008). Till such time that Rogers County can be classified as a "proven" producing property and the Corporation can obtain a reserve report, all production revenue originally attributed to Boulder will be applied first against the principal balance of the non-participation amounts due. Once Rogers County is classified as a proven property and a reserve report can be obtained, the Corporation will then recognize a portion of the production revenue originally attributed to Boulder as interest revenue. The total interest due to the Corporation approximates \$1,952,676.

The Corporation will continue to develop the Rogers County oil field with the objectives of increasing and stabilizing overall production.

In the Rodney South oil field, the Corporation has eight Powerwave systems installed and effective January 1, 2008, the Corporation began recognizing its 70% proportion of net production revenue, which as at May 31, 2008 amounted to \$45,766. During this period, oil field injection rates without Powerwave was around 10 to 15 barrels of water per day and increased to around 55 barrels of water per day once Powerwave was implemented. However, the initial permitted water injection pressure and rates in the oil field were below the levels desired in the production plan. At the lower injection levels it took approximately four months to achieve a balanced volume to positively affect production.

Subsequent to the reporting period, the Corporation together with Greentree was able to obtain a new injection permit to increase injection pressure from a maximum pressure gradient of 18 kPa/m to 31.3 kPa/m, resulting in an increase in maximum surface injection pressure from ca 140 psi to ca 400 psi. The increased injection pressure is in the process of being implemented in line with the new injection permit, and is expected to provide more efficient volume balancing and yield higher oil production rates.



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The strategy employed and successes in Rogers County and Rodney South have directly resulted in a number of projects in Canada and United States that have been announced throughout the quarter. Notably during the nine months ended May 31, 2008 the Corporation had installed 23 Powerwave systems, including those installed in Rogers County and Greentree. Consistent with both the Rogers County and Rodney South ventures, a Powerwave installation with a major oil producer in Alberta led to a direct pressure response in the reservoir, with increases in fluid production rates, increased casing head pressure and fluid levels in the production wells and in a number of cases increased oil cuts and production rates. This result led the major project's oil producer to move the project to a commercial stage and to schedule additional Powerwave systems for additional installation.

With current and scheduled projects throughout Canada and United States including those in Alberta, Alaska, Pennsylvania, Texas, Oklahoma, and Ontario the Corporation anticipates a total of 85 Powerwave systems installed and operational in the near term. The oil fields where these systems are, or will be installed, have an estimated 4,570 injectors, which the Corporation will continue to target for further commercialization of its technology. The growing number of Powerwave systems installed and operating is a significant advancement to the Corporation achieving its target objective of having 100 systems "deployed" by the end of the fiscal year. Management however, believes that due to installation delays, which are beyond the control of the Corporation, this objective, may not be achieved until the end of the calendar year. The sales and installation cycle of Powerwave however, is dramatically affected by the timetable of an oil producer. As such, there are time lags between the announcement of a contract, the installation of systems and revenue generation. The revenue generated by the Powerwave systems are realized when the systems are installed and based on the commercial terms agreed to with the client.

Subsequent to the reporting quarter the Corporation was able to secure a contract for the deployment of four Primawave systems to help accelerated the clean-up of hydrocarbons on a former oil refinery and terminal site, operated by a major integrated oil and gas producer. The estimated 80-acre site is anticipated to develop into a multi-year, multi-system undertaking. The expansion of the program beyond the four Primawave systems to the oil refinery and terminal site is currently being negotiated with the project consultant, the refiner, and State authority.

Consolidated Results – nine months ended May 31, 2008

Revenues

Total revenues for the nine months ended May 31, 2008 were \$1,311,113, an increase of \$241,698 from the revenues recognized in the corresponding period of 2007 of \$1,069,415. The increase in revenue is primarily a result of the acquisition of Wavefront Sand Pumps & Rentals Ltd. and interest revenue.

The integration of Top Gun's business with the Corporation's "equipment and technology" business segment includes rental revenue and sale of various pumps designed to increase production of heavy oil wells, which have been classified as a component of property, plant and equipment. With the change in accounting estimates related to the Top Gun Acquisition, the Corporation reduced its total revenue in the prior quarter by \$90,784; the total proceeds received from the sale of rental equipment, and recognized a gain on the sale of the equipment of \$16,325. Inclusive of the gain on the sale of property plant and equipment is a reduction of the gain by \$49,149 to account for the revision in estimate in the property, plant and equipment.



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The Corporation also recognized production revenue, not including operator fees, of \$120,164 (2007 - \$54,323) related to the Rogers County venture and Rodney South ventures, and interest income of \$319,147 (2007 - \$277,589).

Geographically, \$1,219,258 (2007 – \$909,033) in revenue was generated in Canada, and \$91,855 (2007 - \$160,382) from the United States of America.

Direct Expenses

Direct expenses related to revenue increased to \$357,675 (or 42% of gross services and royalty revenue) compared to \$155,988 (or 24% of gross service and royalty revenues) for the corresponding period of 2007. The current period increase in direct costs relates to the service nature of the Wavefront Sand Pumps' business, which relate to the rental and sale of associated pumps and services in the heavy oil sector versus a product mix with a heavier weighting towards the licensing of PW services only. As PW commercialization and licensing revenue become the predominate factor in the product mix, it is expected that the direct costs will decrease as a percentage of service revenue and royalties.

Other Operating Expenses

Other operating expense for the period amounted to \$4,059,080, compared to \$2,756,880 in 2007. The increase in operating expenses of \$1,302,200 was principally a result of the following changes:

- i. General and administrative expenses totalling \$2,448,256, an increase of \$334,364 from the expenses recognized in the corresponding period of May 31, 2007 of \$2,113,892 comprised the largest increase in other operating expenses. The following table provides comparative details for the general and administrative expenses:

	<u>2008</u>	<u>2007</u>
Wages, employee benefits, and contract employees	1,366,284	1,061,718
Professional fees	386,487	424,567
Office	358,453	309,786
Vehicle	139,061	71,981
Repairs and maintenance	105,024	38,330
Consultants	89,957	193,330
Miscellaneous	2,990	3,162
Bad Debts	-	11,018
	<u>2,448,256</u>	<u>2,113,892</u>

Wages, employee benefits, and contract employees increased as result of increased wages paid, and the hiring of sales personnel for the Corporation's offices in Calgary, Alberta and Houston, Texas. Wages are expected to increase slightly for the next quarter as the Corporation is hiring field technicians to assist in the installation and evaluate recent installations of Powerwave systems in the United States.

- ii. An increase in "amortization, depreciation, depletion and accretion" expenses of \$385,343. The increase principally relates to the Corporation amortizing the Greentree definite life intangible asset, which amounted to \$112,622, and the amortization of the Corporation's PW systems and assets acquired in the Top Gun Acquisition.



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- iii. An increase in "selling, marketing, and travel" of \$265,882 which relates to increased activity in securing of Powerwave projects across North America. Also included in the cost category are costs totalling \$99,458 related to pilot projects in Alberta, Saskatchewan and Pennsylvania.
- iv. Additional other increases operating expenses amounting to \$316,611 relate to the following:
 - An increase in "research and development" of \$255,259, comprised the largest increase in other operating expenses. Included in the current period's expenses is \$252,412 of costs that were previously included in assets under construction. During the reporting period these amounts were deemed to be development costs and were expensed from assets under construction to development costs.
 - An increase of "listing and public company fees" of \$61,352 which relates to the 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 PW as well as the increased size of operations that resulted from efforts to push the technology in the market place through the acquisition of Wavefront Sand Pumps.

Net Loss and Loss Per Share

The net loss for the nine months ended May 31, 2008 was \$3,341,583 (\$0.06 per share), compared to \$3,115,549 (\$0.07 per share) in 2007. The decrease in loss per share is a function of the increased in the weight average number of shares outstanding, which relates to the December 24, 2007, and January 31, 2008 private placements and the associated share purchase warrant exercises relating to those private placements.

Consolidated Results – three months ended May 31, 2008

Revenues

Total revenues for the three months ended May 31, 2008 were \$684,009, a decrease of \$27,529 from the revenues recognized in the corresponding period of 2007 of \$711,538 primarily relates to decreased revenues from the rental and sale of pumps and services in the heavy oil sector. This decrease in revenue is consistent with and mirrors the decline in activity in the heavy oil belt in Alberta.. Despite the decline in the local market activity, the Corporation has been able to maintain its market share in this sector.

The Corporation also recognized production revenue of \$57,218 (2007 - \$36,064) related to the Rogers County venture and Rodney South ventures, and interest income of \$173,217 (2007 - \$71,964). The increase in production revenue is attributed to the commencement of production on the Rodney South oil field in January 2008.



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Direct Expenses

Direct expenses related to revenue increased to \$152,082 (or 33% of gross services and royalty revenue) compared to \$144,242 (or 24% of gross services and royalty revenue). The current period's increase in direct costs relates to the service nature of the business associated with the rental and sale of associated pumps and services related to the heavy oil sector versus a product mix with a heavier weighting towards the licensing of PW services only.

Other Operating Expenses

Other operating expense for the period amounted to \$1,605,103, compared to \$1,136,325 in 2007. The increase in operating expenses of \$468,778 was principally a result of the following changes:

- i. An increase in "amortization, depreciation, depletion and accretion" expenses of \$185,067. The increase principally relates to the Corporation amortizing the Greentree definite life intangible asset, which amounted to \$112,622, and the amortization of the Corporation's PW systems and assets acquired in the Top Gun Acquisition.
- ii. An increase in "research and development" expense of \$129,749. Included in the current period's expenses is \$130,338 of costs that were previously included in assets under construction. During the reporting period these amounts were deemed to be development costs and were expensed from assets under construction to development costs.
- iii. An increase in "selling, marketing, and travel" expense of \$86,633 which relates to increased activity in securing of Powerwave projects and the inclusion of direct costs related to pilot projects in Alberta, Saskatchewan and Pennsylvania.
- iv. General and administrative expenses totalling \$952,915 an increase of \$53,085 from the expenses recognized in the corresponding three month period ending May 31, 2007 of \$899,830 comprised the largest increase in other operating expenses. The following table provides comparative details for the general and administrative expenses:

	<u>2008</u>	<u>2007</u>
Wages, employee benefits, and contract employees	518,478	428,106
Professional fees	149,091	192,876
Office	125,777	117,644
Consultants	62,729	91,757
Vehicle	58,902	32,583
Repairs and maintenance	37,987	23,274
Miscellaneous	(49)	2,572
Bad Debt	-	11,018
	<u>952,915</u>	<u>899,830</u>

- v. The other major increase in other operating expenses for the three months ended May 31, 2008 was an increase in "listing and public company fees" of \$14,244 which relates to the investor relations consultants and associated investor trade shows and expenses related to developing a secondary market for the trading of the Corporation's securities.



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Net Loss and Loss Per Share

The net loss for the three months ended May 31, 2008 was \$1,195,773 (\$0.02 per share), compared to \$1,042,086 (\$0.02 per share) in 2007.

SEASONALITY OF OPERATIONS

Certain oil field services offered by the Corporation are seasonal and related to the product offering and the geographical area in which products are offered for sale. The Corporation's product offering, in relation to oil field services, are the rental and sale of downhole equipment. The target geographical area of the product offering is Alberta and Saskatchewan. Due to temperature influences on ground conditions, the months of December, March and April have lower activities.

The Corporation focuses its resources on Powerwave and Primawave technologies. There are no known seasonal fluctuations in regards to oil production, where the Corporation has mineral rights or enters into licensing or usage agreements in either targeted implementation sectors.

LIQUIDITY AND CAPITAL RESOURCES

Assets and Liabilities

Total assets increased by \$18,313,384 to \$34,833,138 since August 31, 2007, which was principally due to increases in cash of \$18,030,495, which relates to the closing of the December 24, 2007 and January 31, 2008 private placements (see section below on Financing), increases in property, plant and equipment of \$704,413 that principally relates to the revised estimates associated with the Top Gun purchase price allocation and intangible assets of \$282,321. Offsetting these increases were decreases in accounts receivable in the amount of \$199,064 and the goodwill in the amount of \$522,396 associated with the Top Gun acquisition.

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

The Corporation also holds a 100% working interest in an aggregate of 1,679 acres, consisting of multiple oil field leases in Young County, Texas. As at May 31, 2008 no development has occurred in Young County.

During the quarter ended May 31, 2008, the Corporation acquired a 50% working interest in a yet to be unitized property, consisting of multiple oil field leases in Taylor County, Texas for \$39,768. As at May 31, 2008 no development has occurred in Taylor County.

The underlying oil field associated with the Greentree Rodney South Farm-in remains under development however, an independent reserve report was obtained on the oil field as such the Corporation began depleting the oil field during the reporting period.



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The acquisition of Rogers County, Young County and Taylor County oil field leases and participation in the Greentree Farm-in are to showcase the durability of the Powerwave systems and for the collection of data over a range of difficult geological conditions that can be audited by potential third party Powerwave customers. Powerwave's success in Rogers County has directly led to the multiple projects in Alberta, Alaska, Saskatchewan, Pennsylvania and Texas.

Non-participation amounts due have been re-classified from the fiscal year end financial statements as a component of property, plant and equipment, as the Corporation carries Boulder's interest in the all rights and entitlement of the assets till such time that the Corporation is repaid 200% of the costs incurred. No depletion or depreciation of the non-participation amounts has been recorded as the underlying asset or the oil field, remains classified as an unproven property. All production revenue originally attributable to Boulder has been recorded against the cost of the non-participation amounts due.

As at May 31, 2008, the Corporation wrote off the intangible asset related to the Greentree "Net Over-riding Royalty" Agreement with a carrying value of \$50,661.

Total liabilities decreased by \$710,742 to \$1,123,007 since August 31, 2007. This was principally due to the decrease of \$542,815 in accounts payable and accrued liabilities and the re-valuation and repayment of the shareholder notes payable associated with the Top Gun purchase price allocation.

Liquidity

As at the end of the period, the Corporation had working capital of \$23,338,962. The Corporation believes that its working capital position will continue to fluctuate as management believes positive results related to the Powerwave projects will require the Corporation to ramp up Powerwave 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 for the remainder of fiscal 2008.

The Corporation, however, anticipates greater cash inflows as a result of the following:

- Additional Powerwave projects throughout Canada, the United States, and other jurisdictions.
- Full commercialization of the existing Powerwave projects throughout Canada and the United States
- Increasing production revenue from the Greentree Rodney South farm-in into full production;
- Increased sales from Wavefront Sand Pumps & Rentals Ltd.; and
- Expanding revenue from broader use of Primawave in the environmental sector.

Financings

During the reporting period, the Corporation closed the following two equity financings.

- i. Effective December 24, 2007, the Corporation issued 4,985,678 units of \$0.95 per unit for gross proceeds of \$4,736,394. The 4,985,678 units were issued by way of a brokered and concurrent non-brokered private placement. Each unit consisted of one common share and one-half common share purchase warrant ("Warrants"), with each full share purchase warrant entitling the holder to acquire a common share at a price of \$1.25 for a period of 12 months ended December 24, 2008, or subject to earlier expiry. The



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common share purchase warrants were valued at \$333,157. The Corporation paid filing fees, finders fees, legal and agent expenses of \$478,465, resulting in net cash proceeds of \$4,257,929.

- ii. Effective January 31, 2008, the Corporation issued 9,641,052 units of \$0.95 per unit for gross proceeds of \$9,158,999. The 9,641,052 units were issued by way of a brokered and concurrent non-brokered private placement. Each unit consisted of one common share and one-half common share purchase warrant ("Warrants"), with each full share purchase warrant entitling the holder to acquire a common share at a price of \$1.25 for a period of 12 months ended January 31, 2009, or subject to earlier expiry. The common share purchase warrants were valued at \$324,871. The Corporation paid filing fees, finders fees, legal and agent expenses of \$611,879, resulting in net cash proceeds of \$8,547,120.
- iii. On March 3, 2008, the Corporation provided holders of the Warrants issued in connection with December 24, 2007 and January 31, 2008 (noted above) private placements notice that the 20 day weighted average price of the Corporation's common shares traded above \$1.50. In accordance with the Warrant terms the holder had till April 3, 2008 to exercise their warrants or they would expire. All 7,313,363 Warrants were exercised at a price of \$1.25 per Warrant providing the Corporation with gross proceeds of \$9,141,704.

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

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

Capital Resources

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

Greentree Farm-in

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

As at May 31, 2008, the Corporation has paid Greentree \$2,168,834 (August 31, 2007 – \$1,823,235), nil accrued (August 31, 2007 – \$132,828), under the Farm-in Agreement. The Corporation is obligated to the remaining balance of up to \$81,166 under the Farm-in Agreement. The resulting asset is classified as a finite life intangible asset.



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Supplier Purchase Obligations

The Corporation has committed to purchase 82 Powerwave systems from third party suppliers totaling \$668,600.

Other commitments total \$277,787 in various operating leases for premises, vehicles and contracts over the next two years.

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

- To build additional Powerwave systems for deployment to external clients for use in waterfloods in commercial projects. It is anticipated that commitments will be made for additional systems by the end of the fiscal year.
- To support the marketing efforts with, and to train all licensees, on the implementation of Powerwave and Primawave.
- To augment the Corporation's facilities in Edmonton, Alberta to include a testing facility to ensure quality control over the PW systems prior to deployment. Currently the Corporation utilizes third party facilities but anticipated demand necessitates moving such facilities in-house.
- 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 July 28, 2008, there are no amounts owed in respect of the lines of credit and the Corporation had \$23,206,012 of cash on hand.

Off-Balance Sheet Arrangements

The Corporation has no off balance sheet arrangements.

TRANSACTIONS WITH RELATED PARTIES

During the period ended May 31, 2008, the Corporation had the following related party transaction:

In fiscal 2006, the Corporation became the operator of record of the Rogers County venture, and Boulder, as a non-operating partner and related party, exercised its non-participation rights in the Joint Operating Agreement. As at May 31, 2008 total amounts due to the Corporation by Boulder were \$1,952,676 (August 31, 2007 - \$2,040,896). Under the Joint Operating Agreement, the Corporation will receive all production revenues from production wells associated with the costs incurred until such time as the Corporation is repaid 200% of the costs incurred, after which, production revenues will revert back to the party's original working interest proportions.

During the reporting period a director of the Corporation exercised 40,000 incentive stock options at a price of \$0.50 per share, providing the Corporation with gross proceeds of \$20,000.



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In addition, during the reporting period ended May 31, 2008, 210,000 incentive stock options were issued to directors and officers of the Corporation with an exercise price of \$1.65. These incentive stock options are set to expire five years from the date of issue on February 22, 2013.

Subsequent to the reporting period a director of the Corporation exercised 352,755 incentive stock options at prices ranging from \$0.45 to \$0.55, providing the Corporation with gross proceeds of \$172,990.

PROPOSED TRANSACTIONS

Successful Powerwave results stemming from upcoming installations will require the Corporation to build a significant number of Powerwave systems for broader commercial utilization as disclosed in the section on supplier purchase obligations, above.

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 worldwide are expected to remain strong. This macro focus on production will be a strong driver on how Powerwave is commercialized and will affect the Corporation's financial performance for the near future.

Efforts for the remainder of fiscal 2008 and into 2009, will focus on closing pending and new PW contracts, and installing the recently announced contracts for Powerwave projects. The 4,570 water injectors, which these projects represent, are the immediate target for further commercialization of the Corporation's technology. Management believes that due to installation delays, which are beyond the control of the Corporation, the objective of having 100 Powerwave systems installed may not be achieved until the end of the calendar year.

SUPPLEMENTARY INFORMATION

Summary of Quarterly Results (Three months ended)

	3 rd Qtr May 31'08	2 nd Qtr Feb 29'08	1 st Qtr Nov 30'07	4 th Qtr Aug 31'07
	\$	\$	\$	\$
Revenue	684,009	342,286	248,818	467,863
Loss from Operations	(1,073,176)	(1,028,455)	(1,004,011)	(777,005)
Net Loss	(1,195,773)	(1,127,539)	(1,018,271)	(1,234,352)
Basic and diluted loss per share	(0.021)	(0.021)	(0.021)	(0.028)
Common share outstanding				
Weighted average shares outstanding	60,004,288	51,920,405	48,572,112	47,937,111
Diluted shares outstanding				



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	3 rd Qtr May 31'07	2 nd Qtr Feb 28'07	1 st Qtr Nov 30'06	4 th Qtr Aug 31'06
	\$	\$	\$	\$
Revenue	711,538	169,020	188,857	294,863
Loss from Operations	(569,029)	(674,982)	(605,449)	(805,353)
Net Loss	(1,042,086)	(1,025,658)	(1,047,805)	(1,302,976)
Basic and diluted loss per share	(0.020)	(0.020)	(0.022)	(0.035)
Common share outstanding				
Weighted average shares outstanding	47,927,816	47,918,911	47,913,796	34,940,952
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's revenue, loss from operations and net loss have been reclassified to conform to current presentation.

RISK FACTORS

The Corporation's business risks are the same as disclosed in its annual MD&A issued for the year ended August 31, 2007.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Corporation's critical accounting policies and estimates are the same as disclosed in its annual MD&A issued for the year ended August 31, 2007.

CHANGES IN ACCOUNTING POLICIES

Effective September 1, 2007 the Corporation adopted the recommendations of Canadian Institute of Chartered Accountants (CICA) Handbook Section 3855, Financial Instruments – Recognition and Measurement, Section 3865, Hedges, Section 1530, Comprehensive Income, Section 3251, Equity and Section 3861, Financial Instruments – Disclosure and Presentation. The application of these new standards did not have a significant effect on the Corporation's financial position or results of operations in the current periods presented.

FINANCIAL AND OTHER INSTRUMENTS

There are no significant changes, since the annual MD&A issued for the year ended August 31, 2007, in financial or other instruments.



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

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 principles. 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.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Corporation undertook the documentation and assessment of the design of internal controls over financial reporting for its operating and accounting processes. Similar to the evaluation of disclosure controls and procedures referred to above, the design of internal controls over financial reporting was evaluated as defined in Multilateral Instrument 52-109. Based on the results of this evaluation, the President and Chief Executive Officer and the Chief Financial Officer attested that the internal controls over financial reporting are designed to provide reasonable assurance that its financial reporting is reliable and that Corporation's consolidated financial statements were prepared in accordance with Canadian GAAP.

Management also concluded that during the quarter ended May 31, 2008, no changes were made to internal controls over financial reporting that would have materially affected, or would be reasonably considered to materially affect, these controls.

Scope of Internal Controls Over Financial Reporting

The Corporation's internal controls over financial reporting do not extend to that of Greentree Gas and Oil Ltd. and oil field that was recently acquired in Taylor County, Texas. Additional procedures have been performed by the Corporation in order to ensure that the amounts relating to the Greentree Farm-in Agreement in the consolidated financial statements were recorded in accordance with GAAP.

Management, including the CEO and CFO, believe that the Corporation is taking the appropriate steps necessary for the remediation of the above weakness and will continue to monitor the effectiveness of these procedures and to make any changes as is deemed appropriate.



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

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 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.

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