

Management's Discussion and Analysis

WaveForm Energy Ltd.

Three months ended March 31, 2005



MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis ("MD&A") for WaveForm Energy Ltd. ("WaveForm" or the "Company"), prepared as at May 26, 2005, has been prepared to analyze for its shareholders the first quarter 2005 operating results and to discuss the Company's future opportunities. The MD&A should be read in conjunction with the audited financial statements for the period ended March 31, 2005. The financial statements, and extracts of those statements provided within this MD&A, were prepared in Canadian dollars and are in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). Certain other information with respect to the Company is available on SEDAR, at www.sedar.com and at WaveForm's website at www.waveformenergy.com.

By its nature, the MD&A requires the presentation of certain forward looking financial and operational information that involves known and unknown risks and uncertainties, some of which are beyond WaveForm's control. These include, but are not limited to, general economic conditions, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risks, government regulations, stock market volatility, and competition from other producers. Although assumptions used in the preparation of forward looking information are considered reasonable by management at the time, actual results could differ materially from those contained in such forward looking information.

The MD&A may contain the term "cash flow from operations," which should not be considered an alternative to, or more meaningful than, cash flow from operating activities as determined in accordance with GAAP as an indicator of the Company's performance. WaveForm's determination of "cash flow from operations" may not be comparable to that reported by other companies. The reconciliation between net income and "cash flow from operations" can be found in the consolidated statements of cash flows. The Company also presents cash flow from operations per share whereby per share amounts are calculated using weighted average shares outstanding consistent with the calculation of income per share.

For the purposes of calculating unit costs, natural gas has been converted to a barrel of oil equivalent ("boe") using a conversion rate of six thousand cubic feet equal to one barrel ("6:1"). This conversion is based upon energy equivalence at the burner tip and does not represent a value equivalency at the well head.

CORPORATE DEVELOPMENT

At the beginning of 2004, WaveForm was a recently formed petroleum and natural gas company that was operating as WaveForm Energy Limited Partnership 1 ("the Partnership"), and WaveForm License Holdings Inc. The Company's initial business opportunity related to an exploration technology called Event Resolution Imaging ("ERI") which was initially licensed on December 20, 2003, and was held in WaveForm License Holdings Inc. In March of 2004, WaveForm became aware of an exploration prospect in the Tableland area of southeastern Saskatchewan. On July 26, 2004 the Partnership entered into a joint venture agreement to obtain pre-owned lands, and to acquire additional lands in the area, of which WaveForm would own 65 percent, and would operate the joint venture lands. Throughout 2004 the Partnership had raised gross proceeds of \$4,000,000 from the sale of partnership units. It became clear to the management team that the company would require additional resources to adequately develop the land acreage it had acquired. Therefore, in September of 2004 WaveForm initiated its initial public offering to obtain the necessary capital, and WaveForm Energy Ltd. was created through a name change of WaveForm License Holdings Inc. Throughout the fourth quarter of 2004 the Company recruited the necessary team to explore and develop the land base and acquired additional lands in the area. On December 22, 2004 management had the first closing on the initial public offering, and the

net assets of the Partnership were acquired by WaveForm. Upon final closing of the initial public offering, the financing was over allotted raising gross proceeds of \$10,632,000. At the end of 2004, WaveForm had the people, the technology, the land base, and the capital to effectively begin the exploration and development of its core area in Tableland.

During the first quarter of 2005, WaveForm drilled two wells into the Middle Bakken zone on its southeast Saskatchewan properties. Both wells have been logged and tested with initial results corresponding to those anticipated by WaveForm. The drilling and initial completion data gathered to date from the two wells will significantly improve the effectiveness of the fracture stimulation of the Bakken sand and shale. The oil produced during the testing was light, sweet crude with an API of 42.5°. The two wells had horizontal legs of 1200 and 1145 metres respectively, with both wells encountering oil saturated sandstone and siltstone throughout the drilling. The geological data gathered throughout the drilling process has been consistent with the Company's expectations, which are based on geological data from existing successful wells of this type in Richland County, Montana and North Dakota where operators have drilled over 150 successful horizontal Bakken wells.

During the last week of April, both horizontal wells were stimulated with large staged fracture treatments. The intent of the fracture treatments was to expose as much of the shale source rock to the well bore as possible. For each well, approximately 240 tonnes of sand was successfully placed, with pump rates and pressures indicating good distribution along the length of each well bore. During the early part of May, load fluid from the fracture treatments was recovered and swabbing continued in order to evaluate each well. While initial results indicated a high water cuts, the percentage of oil cuts has been steadily increasing. Indications are that the water, which has been liberated by the fracture treatment, will continue to decline while the fractures into the shale clean up, allowing the oil volumes to increase. The Company is currently installing pumps on both wells in order to clean up and produce the wells. WaveForm expects both wells will have significant economic production capability as the water cuts decrease, but the Company remains uncertain at this time of specific production rates in this exploratory area. These two wells are the first step in WaveForm establishing the basis for a highly economic and repeatable resource play on its properties.

As at March 31, 2005, WaveForm did not have any reserves or production from operations as the fracture stimulation and completion of the first two wells drilled had not yet occurred.

GENERAL AND ADMINISTRATIVE COSTS

The general and administrative costs were \$293,724 for the three months ended March 31, 2005 compared to \$Nil for the three month period ended March 31, 2004 when the Company did not have active operations. The general and administrative costs are expected to be between \$200,000 and \$250,000 per quarter. Higher than expected average costs in the first quarter are primarily the result of the transition costs related to the changing of the Chief Financial Officer which resulted in a finding fee, and other costs related to the transition. As well, professional fees relating to the tax preparation services for the Company, and the wind down and tax filings of the Partnership are all one time costs that are included in the first quarter. Without the above costs, the general and administrative costs for the quarter would have been approximately \$210,000.

INCOME TAXES

The Company had a loss from operations during the first quarter of 2005 which resulted in a corresponding future tax recovery. Under GAAP, the future income tax benefits associated with flow through shares are recognized at the time that the tax filings are finalized. This occurred during the first quarter, and therefore, the future income tax benefits related to the flow-through shares were recorded as a tax liability and a reduction of share capital. As the Company moved into a taxable position, the utilization of losses became more likely than not to be realized and therefore the share issuance costs were tax affected and the valuation allowance taken at December 31, 2004 was reversed.

NET LOSS AND CASH FLOW USED IN OPERATIONS

The net loss and the negative cash flow from operations consist of the general and administrative costs, offset by residual interest income. The Company is in the final stages of completing its first two wells drilled and management believes they will generate positive cash flows and operating results from the 2005 capital program.

CAPITAL EXPENDITURES

The capital expenditures include \$4,725,206 that is almost exclusively from the drilling and completion of the first two wells. Approximately \$4.0 million was the drilling costs of the first two wells, with the remaining costs primarily related to testing and completion efforts to prepare for the fracture stimulations. Management expects to continue the horizontal drilling program in the Bakken formation, and to test the other potentially lucrative zones on its land base during the second quarter of 2005.

LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2004, the Company had \$5,402,907 in cash and \$5,118,559 in net working capital in which to fund the 2005 capital program. Management expects the 2005 capital program to consist of a minimum of 10 wells in the core area of Tableland which will result in anticipated capital expenditures of approximately \$17.5 million. Management also expects to finance the portion of the capital program which exceeds the existing working capital through a combination of cash flow from the production of the wells drilled early in the year, a portion of the \$3.9 million of warrants that are exercised at \$1.25 per share prior to expiry on June 22, 2005, and additional equity financings. These plans depend on initial drilling results and the strength of the capital markets.

EQUITY

During the first quarter of 2005, the Company had 118,750 warrants exercised at \$1.25 for proceeds of \$148,438, and 43,800 broker warrants exercised for \$0.20 for proceeds of \$8,760. The Company has 3,006,250 warrants remaining which expire June 22, 2005, and 859,920 broker warrants remaining which expire December 31, 2005. Subsequent to period end, an additional 115,500 warrants and 100,210 broker warrants have been exercised.

During the first quarter the Company issued stock options to employees, management and directors. On January 7, 2005 the Company granted management, employees, and directors a total of 1,720,000 options to purchase Class A shares at an exercise price of \$0.40 per share. On February 1, 2005 the Company granted an additional 100,000 options at an exercise price of \$1.40. The fair value of the options granted during the period was calculated using a Black-Scholes Option Pricing Model and the total value was \$170,552, or \$0.10 per option for the January 7th options, and \$89,225, or \$0.89 per option for the February 1st options. The

assumptions used to calculate the value were: risk free rate of 4%, dividend yield of 0%, volatility factor of the market price of the Class A shares of 75%, and an expected life of 5 years. The value of the options was recorded as stock based compensation, with an offsetting amount to contributed surplus based on the vesting terms.

The authorized share capital consists of an unlimited number of Class A and B voting shares. The Class B shares are convertible into Class A shares based on a formula equal to \$10 divided by the greater of \$1 and the then market price of the Class A shares. The Class B shares are convertible at the option of the Company at any time after January 21, 2008 and before January 31, 2010. The Class B shares are convertible at the option of the shareholder, at any time after February 1, 2010 and before March 1, 2010. Any Class B shares not previously converted will automatically convert to Class A shares on March 1, 2010.

CONTRACTUAL OBLIGATIONS

The Company has entered into a lease for office space, as well as leases for office assets such as a photocopier and computers. The office lease is for a period of one year and shall automatically renew for an additional year unless 30 days notice is given prior to the renewal date. As the contract can be cancelled after one year, the only portion of the commitment that is currently binding is shown in the financial statements. The monthly rental rate is \$7,800 per month until June of 2005 when it increases to \$14,300 per month for the remainder of 2005 and then the monthly rate increases by \$500 each year in which the contract is renewed.

Annual Commitments	
2005	\$147,945
2006	8,845
2007	8,845
2008	4,717
2009	2,653

RELATED PARTY TRANSACTIONS

During the period, the Company paid \$13,391 for general corporate legal fees to a legal firm of which a director is a partner. These fees are included in general and administrative expense. The Company paid \$105,612 to an oil and gas service company of which a director of the Company is also a director. This amount is included in property and equipment.

NEW ACCOUNTING POLICIES

The Company has adopted the current accounting policies under Canadian GAAP as at December 31, 2004, and no changes have occurred in the first quarter.

BUSINESS CONDITIONS AND RISKS

The business of exploration, development and acquisition of oil and gas reserves involves a number of uncertainties and as a result, WaveForm is exposed to a number of risks inherent to the oil and gas industry. Operationally WaveForm faces risks that are associated with finding, developing and producing oil and gas reserves. These include risks associated with governmental access regulations, cost and availability of third party services, environmental and safety concerns, and access to processing

facilities. WaveForm is subject to financial risks due to fluctuating commodity prices, interest rates and the Canadian/US dollar exchange rate. WaveForm's growth may be dependant on external sources of financing which may not be available on acceptable terms.

WaveForm mitigates these risks through hiring a highly competent management team with significant experience in the oil and gas industry. The Company may enter into commodity or interest rate hedging strategies to protect certain levels of cash flow. In the field, WaveForm adheres to operational, safety and environmental standards that meet or exceed recognized levels. Finally, WaveForm maintains an insurance program consistent with industry practice to protect against destruction of assets, well blowouts, environmental problems and other business interruptions.

PROPOSED TRANSACTIONS

On May 17, 2005, WaveForm entered into a joint venture agreement with Magnus Energy Inc. ("Magnus") of Calgary, Alberta in order to expedite the exploration and development of lands covering the Bakken Formation in southeast Saskatchewan. In the joint venture, WaveForm will receive a carried working interest in a well to be drilled by Magnus. In return, Magnus will earn a working interest in three sections of land in the northern portion of WaveForm's land base. Magnus will pay 100 percent of the drilling costs to receive a 50 percent working interest in the well after payout. During the payout period the well will be subject to a 5 to 15 percent sliding scale gross overriding royalty.

Magnus can also elect to drill a second well, at its own cost, to earn an additional three sections in the same area under the same terms and conditions. The agreement also anticipates the joint acquisition of additional lands, where Magnus and the WaveForm joint venture will both receive a 50 percent working interest, which is expected to increase the overall net land position of the Company. WaveForm will be the operator of the wells.

WaveForm has also obtained a 74 square mile 3D seismic survey in a prospective area in northwest Alberta, as part of an exploratory drilling joint venture. This 3D seismic survey has a market value of approximately \$2,000,000 if obtained outside of the joint venture. WaveForm will use its proprietary seismic interpretation technology, which it holds the exclusive license for in Canada, to evaluate the best possible drilling locations and the overall potential of this area. The opportunities found from the technical analysis will then be drilled as a joint venture between WaveForm and the company that provided the 3D seismic.

QUARTERLY INFORMATION

2004	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Revenue	Nil	Nil	66,600	5,987
General & Administrative	Nil	22	53,615	183,293
Tax Expense	Nil	Nil	2,334	(2,334)
Net Income (Loss)	Nil	(22)	10,651	(174,972)

Operational activity occurred in the Partnership throughout most of 2004. During the late stages of the third quarter and the fourth quarter WaveForm became an operational entity as it began working on the initial public offering and the acquisition of the net assets of the Partnership. The quarterly data does not represent the expected future activity, as the Company began operations late in 2004 and had not yet begun its capital program.

Financial Statements of

WaveForm Energy Ltd.

Three months ended March 31, 2005



WAVEFORM ENERGY LTD.
BALANCE SHEET (unaudited)

March 31, 2005

	Mar. 31, 2005 (unaudited)	Dec. 31, 2004 (audited)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 5,402,907	\$ 10,121,613
Accounts receivable	591,485	265,893
Prepaid expenses	54,894	5,000
Current portion of notes receivable	58,995	-
	6,108,281	10,392,506
Property and equipment (note 2)	6,575,858	1,851,535
Technology license	999,460	1,016,400
Notes receivable	530,955	589,950
	\$ 14,214,554	\$ 13,850,391
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 889,722	\$ 366,183
Obligation under license agreement	100,000	160,000
	989,722	526,183
Future Income taxes	3,333,000	-
	4,322,722	526,183
SHAREHOLDERS' EQUITY		
Share capital (note 3)	10,122,731	13,417,125
Contributed surplus (note 3b)	93,074	71,426
Deficit	(323,973)	(164,343)
	9,891,832	13,324,208
	\$ 14,214,554	\$ 13,850,391

See accompanying notes to financial statements.

Approved by the Board:

(signed) _____ Director

Donald K. Rae

(signed) _____ Director

Brian D. Fraser

WAVEFORM ENERGY LTD.

STATEMENT OF OPERATIONS AND DEFICIT (unaudited)

For the three months ending March 31, 2005 and from period of inception December 19, 2003 to March 31, 2004

	2005 (unaudited)	2004 (unaudited)
REVENUE		
Interest and other income	\$ 42,565	\$ -
EXPENSES		
Depreciation	17,823	-
Stock based compensation	21,648	-
General and administrative	293,724	-
	333,195	-
Loss before income taxes	(290,630)	-
Future income tax reduction	(131,000)	-
Net Loss	(159,630)	-
Deficit, beginning of period	(164,343)	-
Deficit, end of period	(323,973)	-
Loss per share – basic and diluted (note 3c)	\$ (0.01)	\$ 0.00

See accompanying notes to financial statements.

WAVEFORM ENERGY LTD.
STATEMENT OF CASH FLOWS

For the period ending March 31, 2005 and from period of inception December 19, 2003 to March 31, 2004

	2005 (unaudited)	2004 (unaudited)
CASH PROVIDED BY (USED IN):		
OPERATIONS		
Net loss	\$ (159,630)	\$ -
Add (deduct) items not involving cash:		
Depreciation	17,823	-
Stock based compensation	21,648	-
Future income tax reduction	(131,000)	-
	(251,159)	
Change in non-cash working capital	(351,631)	-
	(602,790)	
FINANCING		
Issue of share capital, net of share issuance costs	169,606	100
Change in non-cash working capital	(147,094)	-
	22,512	100
INVESTMENTS		
Acquisition of property and equipment	(4,725,206)	-
Change in non-cash working capital	586,778	-
	(4,138,428)	-
Decrease in cash and cash equivalents	(4,718,706)	100
Cash and cash equivalents, beginning of period	10,121,613	-
Cash and cash equivalents, end of period	\$ 5,402,907	\$ 100
Cash and cash equivalents consists of:		
Term deposits	\$ 5,026,255	\$ -
Bank balances	376,652	100
	5,402,907	100

See accompanying notes to financial statements.

WAVEFORM ENERGY LTD.

NOTES TO THE FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

The interim financial statements of WaveForm Energy Ltd. ("WaveForm" or "the Corporation") have been prepared in accordance with Canadian generally accepted accounting principles and are consistent with the presentation and disclosure in the audited financial statements and notes thereto for the year ended December 31, 2004. The interim financial statements contain disclosures which are incremental to WaveForm's annual financial statements. Certain disclosures, which are normally required to be included in the notes to the financial statements have been condensed or omitted. The interim financial statements should be read in conjunction with WaveForm's audited financial statements and notes thereto for the year ended December 31, 2004.

The Corporation is in the exploration for and development of petroleum and natural gas properties in Western Canada. The Corporation will require successful drilling operations or acquisition of producing properties in order to finance ongoing operations.

2. PROPERTY AND EQUIPMENT

	Cost	March 31, 2005		December 31, 2004
		Accumulated Depreciation	Net Book Value	Net Book Value
Petroleum and natural gas properties	6,564,972	-	6,564,972	1,845,532
Office equipment	11,769	883	10,886	6,003
	6,576,741	883	6,575,858	1,851,535

The Corporation has not completed the completion and testing of the first two wells drilled as of March 31, 2005. As a result, the full amount of the petroleum and natural gas properties has been excluded from the depletion calculation.

3. SHARE CAPITAL

(a) Shares issued and outstanding

	Number of Shares	Amount
Class A Shares		
Issued for cash	3,797,000	\$ 759,400
Issued for technology license	2,382,000	476,400
Issued to acquire assets	6,250,000	2,902,061
Issued on initial public offering	6,379,200	1,275,840
Balance December 31, 2004	18,808,200	5,413,701
Warrants exercised for cash	118,750	148,438
Broker warrants exercised for cash	43,800	8,760
Less: Future tax effect of flow-through share renouncements		(472,080)
Less: Share issue costs (net of tax future tax effect of \$56,400)		(104,439)
Balance March 31, 2005 (Class A Shares)	18,970,750	\$ 4,994,380

NOTES TO THE FINANCIAL STATEMENTS

(a) Shares issued and outstanding (continued)

	Number of Shares	Amount
Class B Shares		
Issued on initial public offering	935,616	\$ 9,356,160
Balance December 31, 2004	935,616	9,356,160
Less: Future tax effect of flow-through share renouncements		(3,461,920)
Less: Share issue costs (net of tax future tax effect of \$413,600)		(765,889)
Balance March 31, 2005 (Class B Shares)	935,616	\$ 5,128,351
Balance March 31, 2005		\$ 10,122,731

(b) Stock option plan

The Corporation has a stock option plan for employees, consultants, officers and directors. The Corporation may grant up to 10% of the aggregate number of Class A and Class B shares outstanding and no individual option holder is permitted to hold more than 5% of the total Class A and B shares outstanding. The options vest one third immediately and one third on the first and second anniversary dates of the grant and expire in five years from the date of grant.

On January 7, 2005 the corporation granted management, employees and directors a total of 1,720,000 options to purchase Class A shares at an exercise price of \$0.40 per share. On February 1, 2005 the Corporation granted an additional 100,000 options at an exercise price of \$1.40.

The fair value of the options granted during the period was calculated using a Black-Scholes Option Pricing Model and the total value was \$170,552, or \$0.10 per option for the January 7 options, and \$89,225, or \$0.89 per option for the February 1 options. The assumptions used to calculate the value were: risk free rate of 4%, dividend yield of 0%, volatility factor of the market price of the Class A shares of 75%, and an expected life of five years. The value of the options was recorded as stock based compensation, with an offsetting amount to contributed surplus based on the vesting terms.

(c) Loss per share

The weighted average number of Class A shares outstanding during the period was 19,801,482. The Corporation is in a loss position so any conversion of Class B shares, options, or warrants would be anti-dilutive to the loss per share.

4. RELATED PARTY TRANSACTIONS

During the period, the Corporation paid \$13,391 for general corporate legal fees to a legal firm of which a director is a partner. These fees are included in general and administrative expense. The Corporation paid \$105,612 to an oil and gas service company which a director and officer of the Corporation is a director and sole shareholder. This amount is included in property and equipment.