

Management's Discussion and Analysis

WaveForm Energy Ltd.

Six months ended June 30, 2005



MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis ("MD&A") for WaveForm Energy Ltd. ("WaveForm" or the "Company"), as at August 25, 2005, has been prepared to analyze for its shareholders the second 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 December 31, 2004. 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. 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 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 Saskatchewan.

During the first quarter of 2005, WaveForm drilled two wells into the Middle Bakken zone on its southeast Saskatchewan properties. Both wells were logged and tested with initial results corresponding to those anticipated by WaveForm. The oil produced during the testing was light, sweet crude with an API of 42.5°. The two wells had horizontal legs of 1,200 and 1,145 metres respectively,

with both wells encountering oil saturated sandstone and siltstone throughout drilling the horizontal section. 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 the United States where operators are drilling successful horizontal Bakken wells in a similar overpressured formation. During the last week of April, both horizontal wells were stimulated with large staged fracture treatments. Subsequent to the fracture stimulation, both wells have had high water cuts which have been gradually decreasing over time. The Company remains uncertain at this time of specific production rates the first two wells will ultimately achieve.

In June, the Company began drilling a vertical test well, our third well, that tested the Midale Evaporite Formation, cored the entire Bakken Formation (including the Upper Bakken Shale, the Middle Sand Unit, and the Lower Bakken Shale), and drilled down to deeper formations to test the Birdbear and Duperow Formations. The drill stem test of the Midale Evaporite showed this was a productive zone with potential for horizontal drilling. The core of the Bakken Formation has helped the Company further refine its geological model and drilling and completion techniques. No hydrocarbon zones were encountered when drilling into the deeper formations.

The vertical well was then plugged off and the well was drilled and completed into the Midale Evaporite with a 707 meter horizontal leg. The well initially flowed at an equivalent rate of 330 bbls/d over a two hour test period. The Company then shut in the well for production testing over a four day period in order to record bottom hole pressure readings to determine the overall reservoir characteristics, and deliverability of the well. Based on this pressure information, and the information from offsetting wells in the immediate area, management believes the well will have a long reserve life with strong sustained production. The Midale Evaporite well is currently producing at a rate of 240 bbls/d, which has been the average production rate over the first eight days the well has been on pump. Management has elected to produce the well at controlled rates to minimize potential formation damage. The ultimate sustainable production rate is still uncertain.

In July, the Company began drilling its fourth well which is targeting the Bakken Formation with a joint venture partner who is funding 100 percent of the cost to receive a 50 percent working interest after payout. The drilling is being operated by WaveForm, and the information from the Bakken core recovered and production data from the first two wells has been used to refine the drilling and completion techniques used. The well is currently finishing drilling, and further information will be released when results are known.

In late August, the Company has commenced drilling a Midale Evaporite development location and will continue with its capital program. The Company was approached by Tristone Capital Inc. during the summer and offered a bought deal private placement financing. The financing is for gross proceeds of \$10.2 million and is expected to close on or around August 30, 2005. This financing and cash flow from operations, will be used to fund the capital program for the remainder of 2005 which is expected to be \$9 to \$11 million.

Management is excited about the Midale Evaporite discovery and the production capability and long life reserves expected from this formation. The geological mapping indicates this formation extends across the majority of the Company's land base which has the potential to provide significant production for the Company. The development of the Midale Evaporite formation will achieve immediate cash flow that will allow the Company to continue to evaluate the large reserve potential of the Bakken Formation. The bought deal private placement from a respected brokerage firm such as Tristone has allowed the Company to maintain its capital program and continue to develop its land base of 39,000 gross acres in Southeast Saskatchewan.

PETROLEUM SALES

	Q2 2005	Q1 2005
Daily petroleum production (bbls/d)	22	Nil
Average price received	\$67.00	n/a
Revenue	\$64,988	Nil

Production began from the first two wells on May 17, 2005 when they were placed on pump. The price obtained for May production was \$57.01, and for June production was \$70.01. The oil being produced is a light 42 degree API oil, which is reflected in the premium prices obtained. The associated natural gas being produced is currently being used as fuel to operate the production equipment.

The Company's current production rate is 270 bbls/d of oil when all the wells are producing at their average rates. Of the total production, 240 bbls/d of 30 degree API oil is coming from the Midale Evaporite well which began producing on August 14, 2005.

ROYALTIES

The royalty expense for the second quarter was \$1,853, or 2.85 percent of revenue. The Saskatchewan royalty regime includes incentives where deep horizontal wells qualify for a royalty incentive on the first 100,000 bbls of production. This incentive reduces the royalty rate to approximately 2.5 percent with miscellaneous other charges representing the remaining balance of the 2.85 percent actually incurred. This royalty incentive is a significant economic benefit that will allow for high netbacks, and strong initial cash flow from wells drilled in Southeast Saskatchewan. The Midale Evaporite wells also qualify for this incentive.

OPERATING EXPENSES

The operating expenses for the second quarter were \$84,738. The operating costs are high due to the disposal costs of the water that is associated with the current production on the first two wells. As the water cut decreases the overall operating costs will decrease. Management believes oil production on the first two wells will continue to increase based on the production values, and pressure test data obtained over the production life to date.

DEPLETION AND DEPRECIATION EXPENSE

Depletion and depreciation expense consists of:

	Q2 2005	Q1 2005	Total
Depreciation of office equipment	2,277	883	3,160
Depletion of petroleum and natural gas properties	16,747	Nil	16,747
Depreciation of technology license	50,820	16,940	67,760
	<u>69,844</u>	<u>17,823</u>	<u>87,667</u>

The depreciation of office equipment has increased in proportion to the increase in office equipment. The depletion expense was recorded for the first time in the second quarter due to petroleum production commencing in May 2005. The technology license value is being amortized over a period of five years, or \$16,940 per month. Depreciation of the technology license has increased in the second quarter as the license began to be depreciated in March 2005, and the second quarter includes three months of depreciation.

GENERAL AND ADMINISTRATIVE EXPENSE

The general and administrative expenses were \$587,935 for the six months ended June 30, 2005 compared to \$21 for the six month period ended June 30, 2004 when the Company did not have active operations. As the capital activity increases, the Company is bringing on additional resources including people, software, equipment and other resources required to effectively operate a drilling program. Compared to the first quarter of 2005, general and administrative costs remained consistent with a 0.2 percent increase.

INCOME TAXES

The Company had a loss from operations during the first six months 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 of 2005, 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. The reduction of the liability in the second quarter of 2005 relates primarily to the increase in non-capital losses during that period.

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 production on the first two wells drilled has had high water cuts and associated high operating costs during the second quarter which has contributed to the overall loss position. The Company's production profile changed significantly with the Midale Evaporite discovery which occurred in August of 2005. This increased production and continuing development of our land base is expected to improve the profitability and cash flow for the remainder of the year.

CAPITAL EXPENDITURES

During the first six months the Company incurred \$8,484,223 in capital expenditures compared to \$4,725,206 during the first quarter of 2005. During the second quarter the Company completed the first two wells drilled in the first quarter, and was drilling a third test well that was completed in the Midale Evaporite subsequent to the quarter end.

	Three months ended June 30, 2005	Six months ended June 30, 2005
Land acquisition, net of disposals	\$126,673	\$165,559
Geological and geophysical	53,271	107,093
Drilling and completion	3,441,230	7,852,898
Equipment and facilities	128,547	343,610
Other	9,296	15,063
	\$3,759,017	\$8,484,223

LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2005, the Company had \$3,921,387 in cash and cash equivalents and \$2,264,963 in net working capital. Management expects the capital program for the remainder of 2005 to consist of 10 additional wells, which will result in additional capital expenditures of approximately \$9 to \$11 million. Subsequent to period end, the Company has entered into a bought deal financing with Tristone Capital for gross proceeds of \$10,260,000. This new equity in conjunction with the cash flow operations will provide funding for the capital program. The Company has no long-term debt, or bank debt.

EQUITY

As at June 30, 2005 the Company had 19,627,085 Class A common shares, 935,616 Class B shares, 1,574,166 options at a weighted average exercise price of \$0.49 per common share, and 757,710 broker warrants with an exercise price of \$0.20 per common share, issued and outstanding.

During the first six months of 2005, the Company had 599,875 warrants exercised at \$1.25 for proceeds of \$749,845, and 144,010 broker warrants exercised for \$0.20 for proceeds of \$28,802. The Company had 2,525,125 warrants expire unexercised on June 22, 2005, and has 757,710 broker warrants remaining which expire December 31, 2005. Subsequent to period end, an additional 6,760 broker warrants have been exercised.

During the second quarter a total of 50,000 options were granted to a new director, 75,000 options were exercised, and 220,834 options were cancelled. The fair value of the options granted during the period was calculated using a Black-Scholes Option Pricing Model and the total value was \$39,195, or \$0.78 per option. 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 options which were exercised and cancelled were the vested and unvested portion of options previously granted to officers and directors which ceased working with the Company during the second quarter. On August 11, 2005, the Company granted 478,000 options to management, and directors with an exercise price of \$2.04.

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 \$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	\$90,223
2006	8,845
2007	8,845
2008	4,717
2009	2,653

RELATED PARTY TRANSACTIONS

During the period, the Company paid \$22,451 for general corporate legal fees to a legal firm of which an officer is a partner. These fees are included in general and administrative expense. The Company paid \$185,679 to an oil and gas service company of which a director of the Company is also the sole shareholder. 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 second 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.

SUBSEQUENT EVENTS

On August 8, 2005, WaveForm entered into an agreement with Tristone Capital Inc. for an underwritten private placement of 4,300,000 Class A common shares at a price of \$1.90 per share for gross proceeds of \$8,170,000. The Corporation also granted an underwriter's option, exercisable prior to closing, to increase the financing by up to 1,100,000 Class A common shares at a price of \$1.90 per share for total gross proceeds of \$10,260,000. The private placement has been fully subscribed, including the underwriter's option, and is expected to close on or around August 30, 2005.

QUARTERLY INFORMATION

2004	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Revenue	Nil	Nil	66,600	5,987
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.

2005	Quarter 1	Quarter 2
Revenue	42,565	96,382
Net Loss	(159,630)	(269,406)
Loss per share, basic and diluted	(0.01)	(0.01)

The first and second quarter operations reflect the earliest stages of the Company's development of its existing land base. The first wells were completed in the middle of May, and have had high initial water cuts. The Company's third well has been completed in August and has had an initial production rate of 240 bbl/s which will change the Company's production profile, and the profitability for the remainder of the year. The first two wells completed in May of this year are expected to continue to increase in oil production which will also positively impact the profitability. The information gathered on the first two wells has been instrumental in refining our drilling and completion processes for the Bakken well that is currently being drilled.

ADDITIONAL INFORMATION

Additional information relating to WaveForm is filed on SEDAR and can be viewed at www.sedar.com. Information can also be obtained by contacting the Company at WaveForm Energy Ltd, Suite 3000, 150 - 6th Avenue SW, Calgary, Alberta, T2P 3Y7, or on our website at www.waveformenergy.com.

Financial Statements of

WaveForm Energy Ltd.

Six months ended June 30, 2005



WAVEFORM ENERGY LTD.
BALANCE SHEET

June 30, 2005

	Jun. 30, 2005 (unaudited)	Dec. 31, 2004 (audited)
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 3,921,387	\$ 10,121,613
Accounts receivable	534,755	265,893
Prepaid expenses	44,463	5,000
Current portion of notes receivable	579,950	-
	5,080,555	10,392,506
Property and equipment (note 2)	10,469,851	1,851,535
Technology license	948,640	1,016,400
Notes receivable	-	589,950
	\$ 16,499,046	\$ 13,850,391
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 2,775,592	\$ 366,183
Obligation under license agreement	40,000	160,000
	2,815,592	526,183
Asset retirement obligation (note 3)	154,000	-
Future income taxes	3,216,000	-
	6,185,592	526,183
SHAREHOLDERS' EQUITY		
Share capital (note 4)	10,781,617	13,417,125
Contributed surplus (note 4d)	125,216	71,426
Deficit	(593,379)	(164,343)
	10,313,454	13,324,208
	\$ 16,499,046	\$ 13,850,391

See accompanying notes to financial statements.

Approved by the Board:

(signed) _____ Director
Donald K. Rae

(signed) _____ Director
Donald C. Eagleton

WAVEFORM ENERGY LTD.

STATEMENT OF OPERATIONS AND DEFICIT (unaudited)

For the six months ending June 30, 2005 and from period of inception
December 19, 2003 to June 30, 2004

	3 months ended June 30, 2005	3 months ended June 30, 2004	6 months ended June 30, 2005	6 months ended June 30, 2004
REVENUE				
Petroleum sales	\$ 64,988	\$ -	\$ 64,988	\$ -
Less: Royalties	(1,853)	-	(1,853)	-
Interest and other income	31,394	-	73,959	-
	94,529	-	137,094	-
EXPENSES				
Operating	84,738	-	84,738	-
Depletion and depreciation	69,844	-	87,667	-
Stock based compensation	39,579	-	61,227	-
General and administrative	286,774	21	580,498	21
	480,935	21	814,130	21
Loss before income taxes	(386,406)	(21)	(677,036)	(21)
Future income tax reduction	(117,000)	-	(248,000)	-
Net Loss	\$ (269,406)	(21)	\$ (429,036)	(21)
Deficit, beginning of period	(323,973)	-	(164,343)	-
Deficit, end of period	\$ (593,379)	\$ (21)	\$ (593,379)	\$ (21)
Loss per share - basic and diluted (note 4c)	\$ (0.01)	\$ (0.21)	\$ (0.02)	\$ (0.21)

See accompanying notes to financial statements.

WAVEFORM ENERGY LTD.

STATEMENT OF CASH FLOWS (unaudited)

For the period ending June 30, 2005 and from period of inception December 19, 2003 to June 30, 2004

	3 months ended June 30, 2005	3 months ended June 30, 2004	6 months ended June 30, 2005	6 months ended June 30, 2004
CASH PROVIDED BY (USED IN):				
OPERATIONS				
Net Loss	\$ (269,406)	\$ (21)	\$ (429,036)	\$ (21)
Add (deduct) items not involving cash:				
Depreciation	69,844	-	87,667	-
Stock based compensation	39,579	-	61,227	-
Future income tax reduction	(117,000)	-	(248,000)	-
	(276,983)	(21)	(528,142)	(21)
Change in non-cash working capital	(27,082)		(378,713)	-
	(304,065)	(21)	(906,855)	(21)
FINANCING				
Issue of share capital, net of share issuance costs	658,886	100	821,055	100
Repayment of notes receivables	10,000	-	10,000	-
Change in non-cash working capital	-	-	(147,094)	-
	668,886	100	683,961	100
INVESTMENTS				
Acquisition of property and equipment	(3,759,017)	-	(8,484,223)	-
Change in non-cash working capital	1,920,113	-	2,506,891	-
	(1,838,904)	-	(5,977,332)	-
Decrease in cash and cash equivalents	(1,481,520)	79	(6,200,226)	79
Cash and cash equivalents, beginning of period	5,402,907	-	10,121,613	-
Cash and cash equivalents, end of period	\$ 3,921,387	\$ 79	\$ 3,921,387	\$ 79
Cash and cash equivalents consists of:				
Term deposits	\$ 3,037,991	\$ -	\$ 3,037,991	\$ -
Bank balances	883,396	79	883,396	79
	\$ 3,921,387	\$ 79	\$ 3,921,387	\$ 79

See accompanying notes to financial statements.

WAVEFORM ENERGY LTD.
NOTES TO THE FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

These unaudited interim financial statements of Waveform Energy Ltd. ("Waveform") 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 unaudited 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 unaudited 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.

2. PROPERTY AND EQUIPMENT

	June 30, 2005			December 31, 2004
	Cost	Accumulated Depletion and Depreciation	Net Book Value	Net Book Value
Petroleum and natural gas properties	10,468,691	16,747	\$10,451,944	1,845,532
Office equipment	25,180	7,273	17,907	6,003
	10,493,871	24,020	\$10,469,851	1,851,535

As at June 30, 2005 undeveloped land costs of \$1,714,000 were excluded from assets subject to depletion

The Corporation performed a ceiling test calculation at June 30, 2005 to assess the recoverable value of the property and equipment. The petroleum prices used in the calculation are based on July 31, 2005 benchmark commodity price forecasts of an independent reserve evaluator as follows:

	West Texas Intermediate (U.S. \$/bbl)	Company Average (Canadian \$/bbl)
2005	60.17	61.20
2006	60.55	62.62
2007	54.59	58.07
2008	43.92	46.04
2009	42.45	44.24
2010	43.09	44.97

Based on these assumptions, the undiscounted value of future net revenues from WaveForm's proved reserves exceeded the carrying value of property and equipment as at June 30, 2005.

WAVEFORM ENERGY LTD.

NOTES TO THE FINANCIAL STATEMENTS

3. ASSET RETIREMENT OBLIGATION

The Corporation has recorded a liability for the eventual abandonment and restoration of the petroleum and natural gas properties of \$154,000 during the second quarter of 2005. Total estimated future asset retirement costs of \$319,000 have been discounted using a credit adjusted risk free rate of 7.5%. These obligations are to be settled based on the economic lives of the underlying assets, which currently extend 10 years or more into the future and will be funded from general corporate resources at the time of abandonment.

4. SHARE CAPITAL

(a) Shares issued and outstanding

	Number of Shares	Amount
Class A Shares		
Balance December 31, 2004	18,808,200	\$ 5,413,701
Warrants exercised for cash	599,875	749,845
Broker warrants exercised for cash	144,010	28,802
Stock options exercised	75,000	37,437
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 June 30, 2005	19,627,085	\$ 5,653,266
Class B Shares		
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 June 30, 2005	935,616	\$ 5,128,351
Balance June 30, 2005		\$ 10,781,617

(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 one optionee 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.

	Number of options	Weighted average exercise price
Outstanding January 1, 2005	-	-
Granted	1,870,000	\$0.48
Cancelled	(220,834)	0.40
Exercised	(75,000)	0.40
Outstanding - June 30, 2005	1,574,166	\$0.49
Exercisable - June 30, 2005	610,833	\$0.48

On August 11, 2005 the Corporation granted 478,000 options at an exercise price of \$2.04.

WAVEFORM ENERGY LTD.

NOTES TO THE FINANCIAL STATEMENTS

(c) Loss per share

The weighted average number of Class A shares outstanding for the six month period ended June 30, 2005 was 19,995,393 (June 30, 2004 – 100), and for the three months ended June 30, 2005 was 20,082,461 (June 30, 2004 – 100). 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.

(d) Contributed surplus

A summary of the change in the Corporation's contributed surplus balance for the six month period ended June 30, 2005 is as follows:

	Amount
Balance December 31, 2004	\$71,426
Stock based compensation related to options granted	61,227
Allocation to options exercised	(7,437)
Balance June 30, 2005	\$125,216

The fair value of the options granted during the period was calculated using a Black-Scholes Option Pricing Model. 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.

5. RELATED PARTY TRANSACTIONS

During the period, the Corporation incurred expenditures of \$22,451 for general corporate legal fees, to a legal firm of which an officer is a partner, and are included in general and administrative expense. The Corporation incurred expenditures \$185,679 to an oil and gas service company of which a director and officer of the Corporation is a director and sole shareholder, and are included in property and equipment.

6. SUBSEQUENT EVENTS

On August 8, 2005, WaveForm entered into an agreement with Tristone Capital Inc. for an underwritten private placement of 4,300,000 Class A common shares at a price of \$1.90 per share for gross proceeds of \$8,170,000. The Corporation has also granted an underwriter's option, exercisable prior to closing, to increase the financing by up to 1,100,000 Class A common shares at a price of \$1.90 per share for total gross proceeds of \$10,260,000. The private placement has been fully subscribed, including the underwriter's option, and is expected to close on or around August 30, 2005.