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## SECOND QUARTER 2006 HIGHLIGHTS

- The addition of Bob Goods as President, CEO and a Director. Bob has 30 year experience as a senior officer, and has been the president of several junior oil and gas Companies. His experience as COO and as Vice-President of Husky Energy has given him extensive knowledge of the oil and gas prospects in western Canada. He has led negotiations for sales of more than 500 million of Canadian oil and gas assets.
- The acquisition of gas and liquids production in the Ferrier and Rowley areas of Alberta for \$18.5 million.
- The disposition 38 bbls/d of production in the Antler area for \$7.1 million to focus on the remaining undeveloped lands of the Company.
- Proved plus probable reserves discounted at 10% of \$27.9 million\*. The majority of the wells in the independent reserve report had production histories of less than 3 months and has been risked significantly under the 51-101 standards.
- Average net production of 392 boe/d\*, and current net production of 395 boe/d with high netback production and working capital to fund the ongoing capital program.
- Commenced drilling on a Midale Evaporite well in early July. Based on initial production testing, it appears it will be a marginal well.

The second quarter of 2006 represents a restructuring period for the Company in terms of its strategic direction. The Company reduced its overall risk profile through the addition of proven reserves in the Ferrier and Rowley areas of Alberta, which also have multi-zone potential with future infill and step-out locations. This is a complimentary offset to the Tableland field which still has risk associated with the fractured nature of the Midale Evaporite and the learning curve related to the Bakken Formation.

The Company's activities in the second quarter focused on solidifying our technical base in Tableland and understanding and optimizing the production in Ferrier and Rowley acquired assets. During the second quarter, independent reservoir characterization studies were prepared by a respected Calgary-based engineering company that provided useful information on the Bakken and the Midale Evaporite. Both studies indicated that the Midale Evaporite and Bakken Formations have significant oil in place and expected oil recoveries, and provided guidance on how to optimize the drilling and completion program. The Ferrier and Rowley assets have initial production rates below the expected 325 boe/d levels. The Company prepared workover programs with our partners during the second quarter, which were implemented in July.



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Looking forward, the Company has drilling inventory of varied risk, depth, and production potential. This production base will provide the Company the capital to fund the ongoing capital program and develop its land base. Due to the reduced gas prices through the summer, and lower initial production rates the Company is re-evaluating the capital budget and forecasted exit rate. However, we do not expect to make the targeted 950 boe/d exit rate due to the reduction of our capital program. The Company is actively looking for joint venture partnering, or merger opportunities that will provide the working capital, cash flow, and enhance the technical team to develop its undeveloped land base going forward.

## 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 August 29, 2006, provides a review of the first quarter of 2006 operating results and a consideration of the Company's future opportunities. The MD&A should be read in conjunction with the financial statements for the period ended June 30, 2006. 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](http://www.sedar.com) and at WaveForm's website at [www.waveformenergy.com](http://www.waveformenergy.com).

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. The financial information presented has been prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP). The reporting and measurement currency is the Canadian dollar.



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## FORWARD-LOOKING STATEMENTS

In the interest of providing potential investors in WaveForm with information regarding the Company's future plans and operations, certain statements and graphs throughout this document contain "forward-looking statements". Forward-looking statements in this annual report include, but are not limited to, statements, graphs and charts (collectively "statements") with respect to resources and reserves, oil liquids and natural gas prices received, well productivity, operating costs, general and administrative costs, taxation rates, interest rates, and capital expenditure plans for 2006 and beyond. Existing or potential investors should not place undue reliance on forward-looking statements as there can be no assurance that the plans, intentions or expectations they are based on will occur. By their nature, forward-looking statements involve numerous assumptions, known and unknown, risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and other forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct. Some of the risks and other factors which could cause results to differ materially from those expressed in the forward-looking statements contained in the presentation include general economics, business and market conditions; volatility of energy prices; fluctuations in interest rates; energy supply and demand; competition, access to future funding (debt and equity): timing and amount of capital expenditures, imprecision in estimation of future productive capacity, well productivity, operating cost adjustments; cost overruns; and such other risks and uncertainties described from time to time in the reports forwarded to shareholders. Existing or potential investors are cautioned that the foregoing list of important factors is not exhaustive. Furthermore, the forward-looking statement contained in this document are made as of the date this report, effective August 29, 2006, and the company does not take any obligations to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise. The forward-looking statements contained in this report are expressly qualified by this cautionary statement.

## CORPORATE SUMMARY

WaveForm is a junior oil and gas company, publicly traded since January 2005. The Company is focused on the acquisition, exploration and development of oil and natural gas production in western Canada with a particular emphasis on exploration in the Tableland area of southeast Saskatchewan. WaveForm currently has an undeveloped land base in that area of approximately 54,000 gross acres (33,000 net) which provides potential drilling locations in each of the Midale Evaporite Zone in the Ratcliffe Beds, the Upper Bakken Shale, and in the Lower Bakken Shale. Management is optimistic about the possibility of having economically viable deeper zones on its land base. There are six deeper zones, and several shallow zones, which are generating production very close to WaveForm's land base. Effective April 1, 2006, the Company acquired producing properties in the Ferrier and Rowley areas of Alberta which provide low risk step out and infill drilling opportunities going forward.

With the current production base and existing working capital the Company plans to continue to develop the Midale Evaporite Formation in southeast Saskatchewan, and exploit newly acquired opportunities in Ferrier and Rowley. With limited cash resources the Company will need to focus its efforts on the highest return and lowest



risk opportunities going forward. The Company has engaged an external party, Blackmont Capital Inc, to help identify and evaluate strategic alternatives that will provide the cash flow, technical team enhancement and existing working capital to develop the opportunity base within the Company. Some of the Company's near term goals are as follows:

- Shoot 3D seismic in the Rowley area to identify and drill these low risk wells in the Fall and Winter of 2006. These Mannville downspacing wells are expected to provide 100 to 150 boe/d of initial production for a capital cost of approximately \$600,000 per well.
- Look for partnering opportunities on the Tableland Midale Evaporite medium/light oil play to continue with the development drilling in this area. As this play is into fractured reservoir it is a higher risk play, as fracturing is difficult to determine.
- Implement and evaluate the independent reservoir prospect report in the Bakken Formation to determine the most effective development strategy going forward. This will include partnering due to the high capital cost, and early stages of the prospect.
- Continue to work with the operators in the Ferrier area to develop a drilling program for the proven undeveloped drilling location, based on the Ryder Scott reserve report. As this location is a higher capital cost, it is unlikely to be done in 2006.

### DRILLING RESULTS

2006 to date	Wells Drilled	Producing Oil Wells	Shut-in	Abandoned
Tableland area	4 (2.6 net)	4 (2.6 net)	0	0
Antler area	9 (4.5 net)	6 (3.0 net)	2 (1 net)	1 (0.5 net)

During the first quarter of 2006, the Company drilled a total of 12 (6.5 net) wells and had 9 (5. net) producing oil wells for a 75% success rate. In the Antler area, the Company had 4 wells on production by March 31, 2006 and the remaining two producing wells were awaiting equipment subsequent to spring break-up. The Antler area was sold effective April 1, 2006. The Company drilled one additional Midale Evaporite well in July of 2006, which is currently undergoing production testing, but is expected to be a low producing well.



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## SUMMARY OF FINANCIAL RESULTS

Six months ended	June 30, 2006	June 30, 2005
Revenues, net of royalties	\$2,952,458	\$64,988
Cash flow from operations	948,009	(528,142)
Cash flow from operations per share	0.03	(0.02)
Net loss	(1,013,600)	(429,036)
Net loss per share	(0.03)	(0.02)
Total assets	\$39,811,632	\$16,499,046

## PETROLEUM SALES AND PRODUCTION

	Three months ended June 30, 2006	Six months ended June 30, 2006
Daily average petroleum production (bbls/d)	196	219
Daily average natural gas production (mcf/d) *	1,079	429
Daily average natural gas liquid production (bbls/d)*	16	6
<b>Total daily average production (boe/d)</b>	<b>392</b>	<b>297</b>
Average price received – petroleum sales	\$69.59	\$62.65
Average price received –natural gas sales	5.32	5.32
Average price received – natural gas liquid sales	61.23	61.23
<b>Average price received – total per boe</b>	<b>\$54.03</b>	<b>\$55.19</b>
Total revenue	\$1,725,633	\$2,952,458

\* Production was acquired on April 20, 2006 and daily average production is from that date forward for the three months ended June 30, 2006



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The Tableland area in Southeast Saskatchewan produced 195 bbls/d for the three months ended June 30, 2006, and 218 boe/d for the six months ended June 30, 2006. The Tableland field has been subject to steep declines and the current net production from this field is approximately 145 bbls/d from 10 wells. One additional well has been completed and is currently undergoing production and pressure testing, however, this is expected to be a low-producing well which will initially produce 20 to 30 bbls/d.

The Alberta gas properties acquired on April 20, 2006 had limited production histories and, based on estimates and the independent reserve report, management expected initial production to be approximately 325 boe/d. During the three months ended June 30, 2006 the Alberta properties produced 197 boe/d which is below our expectations. The decline in production relates to weaker production on the Rowley wells, and normal operational shutdowns of the gas facilities in Ferrier for two weeks in June. In July, the Company successfully performed a remedial workover to bring production up on one Rowley well; however, this gain has been offset by steeper than expected declines on the remaining Rowley production. The current production rate from the Alberta properties is approximately 220 boe/d.

The Company's total net current production is approximately 395 boe/d.

## ROYALTIES

	Three months ended June 30, 2006	Six months ended June 30, 2006
Crown royalties	\$162,803	\$204,102
Freehold royalties	14,752	22,620
Gross overriding royalties	48,826	94,672
<b>Total royalty expense</b>	<b>\$226,381</b>	<b>\$321,394</b>
<b>Royalty expense per boe</b>	<b>\$7.08</b>	<b>\$6.00</b>
<b>Royalty rate as a percentage of sales</b>	<b>13</b>	<b>10%</b>

The Saskatchewan royalty regime includes incentives where deep horizontal wells qualify for a crown royalty incentive on the first 100,000 bbls of production, which reduces the royalty rate to approximately 2.5 percent. This royalty incentive reduces the overall royalty rate and royalty per boe and provides higher netbacks. The increase in royalty rate during the second quarter relates to the acquisition of Alberta producing properties which are subject to standard Alberta royalties.



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## OPERATING EXPENSES

	Three months ended June 30, 2006	Six months ended June 30, 2006
Operating costs	\$258,364	\$515,134
Operating costs per boe	\$8.08	\$9.62

The operating costs are consistent with the Company's expectations. The decline in per boe operating costs from \$9.62 to \$8.08 is due to the operating costs in the Alberta gas properties, which are lower than the Tableland operating costs. Operating costs for the six months ended June 30, 2006 in aggregate are also higher because of high operating costs in Antler during the first quarter, at an average of \$23.86 per bbl for the first quarter of 2006.

## DEPLETION AND DEPRECIATION EXPENSE

	Three months ended June 30, 2006	Six months ended June 30, 2006
Depletion, depreciation and accretion expense consists of:		
Depreciation of office equipment	\$4,901	\$8,447
Accretion of asset retirement obligation	13,022	22,443
Depletion of petroleum and natural gas properties	881,261	2,151,370
<b>Total depletion, depreciation, and accretion</b>	<b>\$899,184</b>	<b>\$2,182,260</b>
<b>Depletion per boe</b>	<b>\$28.15</b>	<b>\$40.79</b>

The reduction in depletion per boe for the second quarter reflects to acquisition of the Alberta properties at a lower cost per boe, which reduced the higher Tableland depletion per bbl values.

The depreciation is 20% to 30% on office equipment. The accretion of the asset retirement obligation reflects the passage of time related to the liabilities recorded.



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## GENERAL AND ADMINISTRATIVE EXPENSE

	3 months ended June 30, 2006	3 months ended June 30, 2005	6 months ended June 30, 2006	6 months ended June 30, 2005
General and administrative expense – gross	728,720		\$1,200,241	
Overhead recovery	0		(133,689)	
Capitalized amounts	0		(58,125)	
<b>General and administrative expenses – net</b>	<b>728,720</b>		<b>1,008,427</b>	

The general and administrative expenses increased in the second quarter due to severance and related restructuring costs associated with the strategic Alberta acquisition, and changes to the management team. The Company has reduced the general and administrative spending in the third quarter.

## INCOME TAXES

The Company had a loss from operations for the three months and six months ended June 30, 2006 and 2005 which resulted in a corresponding future tax recovery. During the second quarter a total of \$6,641,000 of future income tax was recorded related to the acquisition of the limited partnership as described in Note 2. This future tax liability relates to the difference between the carrying value of the assets which exceed the related tax values.

## NET LOSS AND CASH FLOW USED IN OPERATIONS

	Three months ended June 30, 2006	Six months ended June 30, 2006
Revenues, net of royalties	\$1,725,633	\$2,668,889
Operating costs	(258,364)	(515,134)
Interest	(197,319)	(197,319)
General and administrative costs	(728,720)	(1,008,427)
<b>Cash flow from operations, before changes in working capital</b>	<b>\$345,939</b>	<b>\$948,009</b>



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The net loss for the three months ended June 30, 2006 was \$492,643, and for the six months ended June 30, 2006 the net loss was \$1,013,600. On a cash flow basis, the Company had positive quarterly cash flow for both periods. The second quarter cash flow was reduced by higher general and administrative costs due to strategic changes in the second quarter.

## CAPITAL EXPENDITURES

A breakdown of the capital expenditures for the three months and six months ended June 30, 2006 is as follows:

	Three months ended June 30, 2006	Six months ended June 30, 2006
Acquisition, net of disposals	11,098,510	12,769,091
Geological and geophysical	103,613	175,255
Drilling and completion	384,292	5,892,662
Equipment and facilities	58,517	525,850
Other	27,163	47,163
	<b>11,672,095</b>	<b>19,410,021</b>

The majority of the capital activity for the second quarter relates to the acquisition of the Alberta gas properties for a cash cost of \$19.0 million and the disposition of the Antler assets for net proceeds of \$7.3 million.

## LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2006, the Company had \$1,251,860 in cash and cash equivalents and \$1,488,955 in net working capital. The Company currently has positive cash flow from operations to fund the capital program, and maintain positive working capital. The Company has a large undeveloped land base and is exploring strategic alternatives to provide the Company the capital, and additional technical resources to exploit the land potential.

## EQUITY

As at June 30, 2006 the Company had 32,068,631 Class A common shares outstanding, 935,616 Class B shares, and 1,709,567 options outstanding at a weighted average exercise price of \$0.87 per common share. As at August 29, 2006 the Company has 32,118,631 Class A common shares and 935,616 Class B common shares outstanding.

In July 2006, the Corporation granted 400,000 stock options to the incoming President and CEO at a price of \$1.00 per share. The options have a term of five years, with one third vesting immediately and an additional one third vesting on the first and second anniversary dates.



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During the first quarter of 2006, the Company closed a private placement of Class A Shares for gross proceeds of \$10,000,200. The Corporation issued 2,916,700 Class A Shares on a flow-through basis at an issue price of \$2.40 per share and 1,630,500 Class A Shares at an issue price of \$1.84 per share.

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 which expires on April 30, 2011. The annual commitments for the next five years are as follows:

Annual Commitments	
2006 (remainder)	\$97,875
2007	195,750
2008	195,750
2009	195,750
2010	195,750

### RELATED PARTY TRANSACTIONS

During 2006, the Company incurred \$94,061 for corporate legal fees to a legal firm of which an officer is counsel. These fees are included in general and administrative expense, share issuance costs and acquisition costs. The Company incurred \$199,847 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. The Company incurred \$16,732 to an oil and gas service company which a director of the Company is a director, and officer. This is included in property and equipment.

All transactions were completed on the basis of general market terms and conditions. The Company has specialized, technical expertise on the management team and board of directors and will utilize their services when appropriate to do so. Strict adherence to corporate governance is mandatory when choosing a related party to perform the service which includes a formal bid process, and evaluation of those bids by an independent committee.



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### NEW ACCOUNTING POLICIES

The Company has adopted the current accounting policies under Canadian GAAP and no changes have occurred during the first quarter of 2006.

### 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.

### QUARTERLY INFORMATION

2004	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Revenue	Nil	Nil	66,600	5,987
Net income (loss)	Nil	(21)	10,652	(174,972)

During the late stages of the third quarter and the fourth quarter of 2004 WaveForm became an operational entity as it began working on the initial public offering and the acquisition of the net assets of the WaveForm Energy Limited Partnership, which closed in late 2004. 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.



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2005	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Revenue	42,565	96,382	600,261	\$978,595
Net Loss	(159,630)	(269,406)	(155,725)	(9,544,583)
Loss per share	(0.01)	(0.01)	(0.01)	(0.34)

The Company drilled its first commercially successful well in August of 2005 and a second well in October of 2005, which was followed by an active capital program for the remainder of the year.

2006	Quarter 1	Quarter 2
Revenue	1,138,547	1,530,342
Net Loss	(520,957)	(492,643)
Loss per share	(0.02)	(0.01)

During 2006, the Company became aware of the steep declines in the Tableland area and re-focused its strategic direction through the acquisition of Alberta gas properties in April of 2006.

## OUTLOOK

The second quarter of 2006 was an important period in terms of defining strategic direction for the Company. Looking forward, the Company has drilling inventory of varied risk, depth, and production potential. The acquisition of the limited partnership in April of 2006 added further drilling inventory which adds low risk infill and step-out drilling locations, existing stable production, and multi-zone potential to explore for potential upside on the lands. The second quarter also was a period to step back and review the Tableland field and how to best maximize the value of this field. This stable production base will provide the Company the capital to fund the ongoing capital program and develop its land base.

## ADDITIONAL INFORMATION

Additional information relating to WaveForm is filed on SEDAR and can be viewed at [www.sedar.com](http://www.sedar.com). Information can also be obtained by contacting the Company at WaveForm Energy Ltd, Suite 1700, 520, 5<sup>th</sup> Ave. S.W., Calgary, Alberta, T2P 3R7, or on our website at [www.waveformenergy.com](http://www.waveformenergy.com).



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## FINANCIAL STATEMENTS

### BALANCE SHEETS (UNAUDITED)

June 30, 2006

Assets	June 30, 2006	Dec. 31, 2005
<b>Current assets:</b>		
Cash and cash equivalents	\$ 1,251,860	\$ 4,653,548
Accounts receivable	1,173,318	4,048,137
Prepaid expenses	98,880	17,365
Current portion of notes receivable	488,835	-
	3,012,893	8,719,050
Property and equipment (note 3)	32,701,849	12,739,203
Future income taxes	-	2,606,000
Notes receivable	-	477,253
Goodwill (note 2)	4,096,890	-
	\$ 39,811,632	\$ 24,541,506
<b>Liabilities and Shareholders' Equity</b>		
<b>Current liabilities:</b>		
Accounts payable and accrued liabilities	\$ 1,523,938	\$ 8,495,682
Loan payable (note 4)	10,000,000	-
Future income taxes	5,211,000	-
Asset retirement obligation	612,712	421,937
	17,347,650	8,917,619
<b>Shareholders' equity:</b>		
Share capital (note 5)	33,354,219	25,695,900
Contributed surplus	417,050	221,674
Deficit	(11,307,287)	(10,293,687)
	22,463,982	15,623,887
	\$ 39,811,632	\$ 24,541,506

See accompanying notes to financial statements.

Approved by the Board:

("signed by")

Daniel K. Anderson, Director

("signed by")

Donald C.D. Eagleton, Director



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## STATEMENTS OF OPERATIONS AND DEFICIT (UNAUDITED)

For the three months and six months ending June 30, 2006 and 2005

	3 months ended June 30, 2006	3 months ended June 30, 2005	6 months ended June 30, 2006	6 months ended June 30, 2005
<b>Revenue:</b>				
Petroleum and natural gas sales	\$ <b>1,725,633</b>	\$ 64,988	\$ <b>2,952,458</b>	\$ 64,988
Royalties	<b>(226,381)</b>	(1,853)	<b>(321,394)</b>	(1,853)
Interest and other income	<b>31,090</b>	31,394	<b>37,825</b>	73,959
	<b>1,530,342</b>	94,529	<b>2,668,889</b>	137,094
<b>Expenses:</b>				
Operating	<b>258,364</b>	84,738	<b>515,134</b>	84,738
Depletion and depreciation	<b>899,194</b>	69,844	<b>2,182,260</b>	87,667
Stock based compensation	<b>102,388</b>	39,579	<b>209,349</b>	61,227
Interest	<b>197,319</b>	-	<b>197,319</b>	-
General and administrative	<b>728,720</b>	286,774	<b>1,008,427</b>	580,498
	<b>2,185,985</b>	480,935	<b>4,112,489</b>	814,130
Loss before income taxes	<b>(655,643)</b>	(386,406)	<b>(1,443,600)</b>	(677,036)
Future income tax reduction	<b>(163,000)</b>	(117,000)	<b>(430,000)</b>	(248,000)
Net Loss	<b>(492,643)</b>	(269,406)	<b>(1,013,600)</b>	(429,036)
Deficit, beginning of period	<b>(10,814,644)</b>	(323,973)	<b>(10,293,687)</b>	(164,343)
Deficit, end of period	\$ <b>(11,307,287)</b>	\$ (593,379)	\$ <b>(11,307,287)</b>	\$ (593,379)
Loss per share – basic and diluted (note 5c)	\$ (0.01)	\$ (0.01)	\$ (0.03)	\$ (0.02)

See accompanying notes to financial statements.



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## STATEMENTS OF CASH FLOWS (UNAUDITED)

For the periods ending June 30, 2006 and 2005

	3 months ended June 30, 2006	3 months ended June 30, 2005	6 months ended June 30, 2006	6 months ended June 30, 2005
<b>Cash provided by (used in):</b>				
<b>Operations:</b>				
Net loss	\$ (492,643)	\$ (269,406)	\$ (1,013,600)	\$ (429,036)
Depletion and depreciation	899,194	69,844	2,182,260	87,667
Stock based compensation	102,388	39,579	209,349	61,227
Future income tax reduction	(163,000)	(117,000)	(430,000)	(248,000)
	<b>345,939</b>	<b>(276,983)</b>	<b>948,009</b>	<b>(528,142)</b>
Change in non-cash working capital	<b>800,284</b>	<b>(27,082)</b>	<b>742,936</b>	<b>(378,713)</b>
	<b>1,146,223</b>	<b>(304,065)</b>	<b>1,690,945</b>	<b>(906,855)</b>
<b>Financing:</b>				
Issue of share capital, net of share issuance costs	28,019	658,886	9,250,346	821,055
Repayment (interest) of notes receivable	(11,582)	10,000	(11,582)	10,000
Loan advances, net of repayments	10,000,000		10,000,000	
Change in non-cash working capital	(32,000)	-	(34,347)	(147,094)
	<b>9,984,437</b>	<b>668,886</b>	<b>19,204,417</b>	<b>683,961</b>
<b>Investments:</b>				
Acquisition of property and equipment, net of dispositions	7,335,994	(3,759,017)	(401,932)	(8,484,223)
Acquisition of limited partnership units (note 2)	(19,008,089)		(19,008,089)	
Change in non-cash working capital	(1,044,557)	1,920,113	(4,887,029)	2,506,891
	<b>(12,716,652)</b>	<b>(1,838,904)</b>	<b>(24,297,050)</b>	<b>(5,977,332)</b>
Increase in cash and cash equivalents	<b>(1,585,992)</b>	<b>(1,481,520)</b>	<b>(3,401,688)</b>	<b>(6,200,226)</b>
Cash and cash equivalents, beginning of period	<b>2,837,852</b>	<b>5,402,907</b>	<b>4,653,548</b>	<b>10,121,613</b>
Cash and cash equivalents, end of period	\$ <b>1,251,860</b>	\$ <b>3,921,387</b>	\$ <b>1,251,860</b>	\$ <b>3,921,387</b>
<b>Cash and cash equivalents consists of:</b>				
Term deposits	\$ <b>1,124,060</b>	\$ <b>3,037,991</b>	\$ <b>1,124,060</b>	\$ <b>3,037,991</b>
Bank balances	<b>127,800</b>	<b>883,396</b>	<b>127,800</b>	<b>883,396</b>
	\$ <b>1,251,860</b>	\$ <b>3,921,387</b>	\$ <b>1,251,860</b>	\$ <b>3,921,387</b>

There was no taxes paid during the periods and interest paid of \$197,319 for the three and six months ended June 30, 2006  
See accompanying notes to financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

### 1. Basis of Presentation

The 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, 2005. 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, 2005.

The Corporation is in the exploration for and development of petroleum and natural gas properties in Western Canada.

### 2. Acquisition of limited partnership

On April 20, 2006, the Company acquired all of the issued and outstanding partnership units of B&G Energy 2005 Limited Partnership for cash consideration of \$18.5 million. The transaction was effective April 1, 2006; however, the net revenues are included in the Company's statement of operations from the closing date April 20, 2006 forward. The Company acquired natural gas producing and natural gas liquid producing properties in the Ferrier, and Rowley areas of Alberta.

The purchase price consists of:

Cash	18,500,000
Acquisition costs	<u>508,089</u>
	<u>19,008,089</u>

The purchase price was allocated as follows:

Property and equipment	21,618,699
Goodwill	4,096,890
Asset retirement obligation	(66,500)
Future income taxes	<u>(6,641,000)</u>
	<u>19,008,089</u>

### 3. Property and equipment

	June 30, 2006			December 31, 2005
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Petroleum and natural gas properties	49,031,641	(16,405,814)	32,625,827	12,701,898
Office equipment	102,772	(26,750)	76,022	37,305
	49,134,413	(16,432,564)	32,701,849	12,739,203

At June 30, 2006, \$4,187,225 (December 31, 2005 - \$6,986,897) of undeveloped land and seismic costs have been excluded from the depletion calculation. During the period ended June 30, 2006, \$58,125 (June 30, 2005 - \$Nil) of general and administrative costs have been capitalized.

The Corporation performed a ceiling test calculation at June 30, 2006 to assess the recoverable value of the petroleum and natural gas properties. The petroleum prices are based on March 31, 2006 benchmark commodity price forecasts of an independent reserve evaluator and adjusted for commodity price differentials of the Corporation, as follows:

	Company Average (Canadian \$/bbl)	Company Average (Canadian \$/mcf)
2006	68.00	11.32
2007	63.50	9.86
2008	59.75	8.52
2009	54.00	7.98
2010	53.00	7.66

Based on these assumptions the undiscounted value of the future net revenues from Waveform's proved reserves exceeded the carrying value of the petroleum and natural gas assets.

#### 4. Loan payable

The Company entered into a senior secured debt facility (the "facility") that has a first charge on all assets of the Company. The facility was initially drawn for \$18.1 million to finance the acquisition of the limited partnership units (note 2), but was repaid to \$10.0 million within 30 days of the closing of the acquisition as required under the terms of the facility. The facility bears interest at prime plus 3% per annum, and is due October 17, 2006, with an option to extend to December 31, 2006 with the payment of 1% of the then outstanding amount of the loan. As of June 30, 2006 the Company is in violation of a debt to cash flow covenant.

## 5. Share capital

## (a) Issued and outstanding

Class A Shares	June 30, 2006		December 31, 2005	
	No. of Shares	Value	No. of Shares	Value
Opening Balance	27,461,264	\$ 20,578,468	18,808,200	\$ 5,251,373
Warrants exercised	-	-	606,125	757,656
Stock options exercised (note 3b)	60,167	48,975	235,766	117,596
Broker warrants exercised			903,720	252,170
Class A flow through shares issued for cash	2,916,700	7,000,080	1,507,453	5,125,340
Class A shares issued for cash	1,630,500	3,000,120	5,400,000	10,260,000
Future tax effect of flow-through shares		(1,873,000)		(472,080)
Share issue costs (net of future income taxes of \$267,000, 2005 - \$508,400)		(517,856)		(713,587)
<b>Class A shares, end of period</b>	<b>32,068,631</b>	<b>\$ 28,236,787</b>	<b>27,461,264</b>	<b>\$ 20,578,468</b>

Class B Shares	June, 2006		December 31, 2005	
	No. of Shares	Value	No. of Shares	Value
Class B Shares				
Opening Balance	935,616	\$ 5,117,432	935,616	\$ 8,165,752
Future tax effect of flow-through shares				(3,461,920)
Future tax effect of share issue costs				413,600
Share issue costs				
<b>Class B shares, end of period</b>	<b>935,616</b>	<b>\$ 5,117,432</b>	<b>935,616</b>	<b>\$ 5,117,432</b>
<b>Balance, end of period</b>		<b>\$ 33,354,219</b>		<b>\$ 25,695,900</b>

## (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 each of the first and second anniversary dates of the grant, and expire in five years from the date of grant.

	June 30, 2006		December 31, 2005	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Beginning of period	1,871,400	0.88	-	-
Granted	6,667	2.04	2,418,000	0.87
Cancelled	(108,333)	1.28	(310,834)	1.21
Exercised	(60,167)	0.58	(235,766)	0.40
Outstanding end of period	1,709,567	0.87	1,871,400	0.88
Exercisable – end of period	1,109,233	0.68	602,733	0.89

Exercise Price	Options outstanding		Options exercisable	
	Number	Weighted Average Remaining Life (years)	Number	Weighted Average Remaining Life (years)
\$0.40	1,159,900	3.5	878,233	3.5
\$1.23	50,000	4.05	33,333	4.05
\$1.40	100,000	3.65	66,667	3.65
\$2.04	309,667	4.15	131,000	4.15
	1,709,567		1,109,233	

## (c) Loss per share:

The weighted average number of shares outstanding during the period was 31,289,600 (June 30, 2005 – 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.

## 6. Related party transactions

During the period, the Corporation paid \$94,061 (June 30, 2005 - \$22,451) for corporate legal fees, to a legal firm of which a director is counsel, and is included in general and administrative expense, share issue costs and acquisition costs. The Corporation paid \$199,847 (June 30, 2005 - \$185,679) to an oil and gas service company which a director and officer of the Corporation is a director and sole shareholder, and is included in property and equipment. The Corporation paid \$16,732 (June 30, 2005 - \$Nil) to an oil and gas service company which a director of the Corporation is a director and an officer, and is included in property and equipment.



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