

## 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 November 29, 2006, provides a review of the third quarter of 2006 operating results and a consideration of the Company's future opportunities. The MD&A should be read in conjunction with the audited financial statements for the year ended December 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](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.

## 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 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 November 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 annual 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. 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 limited cash resources the Company will need to focus its efforts on the highest return and lowest risk opportunities. The Company has engaged an external party 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:

- Evaluate a 3D seismic shot in the Rowley area.
- Look for partnering opportunities on the Tableland Midale Evaporite medium/light oil play to continue with the development drilling in this area
- Look for partnering opportunities in the Bakken Formation and determine the most effective development strategy going forward.

## 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 on production, but is a low producing well.

## SUMMARY OF FINANCIAL RESULTS

Nine months ended	Sept 30, 2006	Sept 30, 2005
Revenues, net of royalties	\$3,946,946	\$737,355
Cash flow from (used in) operations	1,098,251	(471,597)
Cash flow from operations per share	0.03	(0.02)
Net loss	(15,522,492)	(584,761)
Net loss per share	(0.49)	(0.03)
Total assets	\$20,656,533	\$24,541,506

## PETROLEUM SALES AND PRODUCTION

	Three months ended Sept 30, 2006	Nine months ended Sept 30, 2006
Daily average petroleum production (bbls/d)	132	189
Daily average natural gas production (mcf/d)	1,071	645
Daily average natural gas liquid production (bbls/d)	15	9
<b>Total daily average production (boe/d)</b>	<b>325</b>	<b>306</b>
Average price received – petroleum sales	\$70.31	\$64.45
Average price received – natural gas sales	\$5.41	\$5.44
Average price received – natural gas liquid sales	\$80.38	\$74.40
<b>Average price received – total boe sales</b>	<b>\$50.02</b>	<b>\$53.55</b>
Total revenue	\$1,506,401	\$4,496,684

The average oil production has declined as the Tableland Midale Evaporite wells drilled have had a steeper decline than anticipated. The Company is not pursuing further drilling in the Midale Evaporite at this time.

The Natural Gas and Liquids production was acquired effective April 20, 2006 the nine month figures show the pro-rated portion.

## ROYALTIES

	Three months ended Sept 30, 2006	Nine months ended Sept 30, 2006
Crown royalties	\$168,582	\$372,684
Freehold royalties	26,104	48,724
Gross overriding royalties	33,658	128,330
<b>Total royalty expense</b>	<b>228,344</b>	<b>549,738</b>
<b>Royalty expense per boe</b>	<b>\$7.63</b>	<b>\$6.59</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 from each well. This incentive reduces the royalty rate to approximately 2.5 percent. This royalty incentive is a significant economic benefit that will allow for high initial netbacks and cash flow from wells drilled in southeast Saskatchewan. The Tableland field has a 5% gross overriding royalty exclusive of the first three earning wells that were drilled in 2005. Management expects that the majority of its production will be on crown royalty holiday for 2006. The Alberta properties are subject to standard Alberta royalty rates for natural gas and natural gas liquids. The increase in the royalty rate for the 3 months ended September 30, 2006 reflects the increasing proportion of production from the Alberta properties which do not have a royalty holiday.

## OPERATING EXPENSES

	Three months ended Sept 30, 2006	Nine months ended Sept 30, 2006
Operating costs	\$426,479	\$941,613
Operating costs per barrel	\$14.25	\$11.29

The operating costs on the Midale Evaporite wells in Tableland were \$24.77 per bbl for the third quarter of 2006, a higher value than expected as a result of the cost of the rental equipment utilized for most of the quarter. The Company plans to continue to purchase equipment and develop infrastructure to reduce this cost going forward.

The operating costs on the Alberta natural gas properties were \$7.29 per boe for the third quarter which is consistent with past operating results and future expectations.

## DEPLETION AND DEPRECIATION EXPENSE

	Three months ended September 30, 2006	Nine months ended Sept 30, 2006
Depreciation of office equipment	\$4,360	\$12,807
Depletion of petroleum and natural gas properties	16,919,342	19,070,712
Accretion of asset retirement obligation	\$13,032	35,475
<b>Total depletion, depreciation, and accretion</b>	<b>\$16,936,734</b>	<b>\$19,118,994</b>

The Corporation performed a ceiling test calculation at September 30, 2006 to assess the recoverable value of the petroleum and natural gas properties. The petroleum prices are based on September, 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	61.00	5.19
2007	65.25	7.14
2008	62.25	7.61
2009	56.75	7.55
2010	53.50	7.16

Based on these assumptions the undiscounted value of the future net revenues from Waveform's proved reserves did not exceed the carrying value of the petroleum and natural gas assets and a write-down of \$15,851,177 was recorded.

As the Company did not pass the ceiling test, management has also written off the goodwill associated with the acquisition of assets as described in Note 2 of the financial statements.

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.

## GENERAL AND ADMINISTRATIVE EXPENSE

	Three months ended Sept 30, 2006	Three months ended Sept 30, 2005	Nine months ended Sept 30, 2006	Nine months ended Sept 30, 2005
General and administrative expense – gross	451,892	356,468	\$1,652,133	936,966
Overhead recovery	(77,511)	(140,000)	(211,200)	(140,000)
Capitalized amounts	-	(33,750)	(58,125)	(33,750)
<b>General and administrative expenses – net</b>	<b>\$374,381</b>	<b>\$182,718</b>	<b>\$1,382,808</b>	<b>\$763,216</b>

The general and administrative expenses have increased compared to the prior year for both the three months and nine months ended September 30, 2006. The early part of 2005 the Company did not have active operations which resulted in the lower general and administrative costs. The Company has gone through an effort to lower general and administrative costs during the third quarter and expects reduced costs going forward.

## INCOME TAXES

The Company has a net loss from operations which resulted in a future tax reduction. The Company had a future tax asset which has not been recognized due to the uncertainty as to the ability to utilize the tax benefits in the future.

## NET LOSS AND CASH FLOW FROM OPERATIONS

	Three months ended Sept 30, 2006	Nine months ended Sept 30, 2006
Revenues, net of royalties	\$1,278,057	\$3,946,946
Operating costs	426,479	941,613
General and administrative costs	374,381	1,382,808
Interest	326,955	524,274
<b>Cash flow from operations, before changes in working capital</b>	<b>\$150,242</b>	<b>\$1,098,251</b>

The Company had positive cash flow for the three months and nine months ended September 30, 2006. The cash flow for the third quarter was reduced by lower natural gas prices which have now recovered.

The Company had a net loss from operations of \$14.5 million and \$15.5 million for the three months and nine months ended September 30, 2006. The net loss is primarily attributed to ceiling test write-downs which have been included in depletion. The proved plus probable reserves did not have a significant change during the period ended September 30, 2006, however a change in reserve classification and lower commodity price forecasts resulted in the write-down.

## CAPITAL EXPENDITURES

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

	Three months ended Sept 30, 2006	Nine months ended Sept 30, 2006
Acquisition, net of disposals	-	\$12,769,091
Geological and geophysical	222,706	397,961
Drilling and completion	1,123,539	7,016,201
Equipment and facilities	143,075	668,925
Other	1,360	48,523
	<b>\$1,490,680</b>	<b>\$20,900,701</b>

The majority of the capital activity in 2006 related to the acquisition of Alberta gas properties for \$19.0 and a disposition of the Antler area for \$7.3 million. The remaining wells are described in the drilling section of the MD&A.

## LIQUIDITY AND CAPITAL RESOURCES

At September 30, 2006, the Company had \$1,173,983 in cash and cash equivalents and \$9,831,483 in net working capital deficit. The Company is working with lenders to replace the bridge loan of \$10.0 million currently due on December 31, 2006. The Company may be required to sell assets to cover the debt position if another lender is not found to replace the debt. This could affect the Company's ability to continue as a going concern.

## EQUITY

As at September 30, 2006 the Company had 32,118,631 Class A common shares outstanding, 935,616 Class B shares, and 1,994,567 options outstanding at a weighted average exercise price of \$0.69 per common share.

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)	\$48,938
2007	195,750
2008	195,750
2009	195,750
2010	195,750

## RELATED PARTY TRANSACTIONS

During the period, the Corporation paid \$115,583 (September 30, 2005 - \$42,686) for general corporate legal fees, to a legal firm of which an officer is counsel, and is included in general and administrative expense, share issue costs and acquisition costs. The Corporation paid \$274,469 (September 30, 2005 - \$364,883) to an oil and gas service company in which a previous director and officer of the Corporation is a director and sole shareholder, and which payments are included in property and equipment. The Corporation paid \$16,732 (September 30, 2005 - \$62,630) to an oil and gas service company in which a director of the Corporation is a director and an officer, and which payments are 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.

## 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 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.

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)

2006	Quarter 1	Quarter 2	Quarter 3
Revenue	1,138,547	1,530,342	1,278,057
Net Loss	(520,957)	(492,643)	(14,508,892)
Loss per share	(0.01)	(0.01)	(0.44)

## 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).

# FINANCIAL STATEMENTS

## BALANCE SHEETS (UNAUDITED)

September 30, 2006

Assets	Sept. 30, 2006	Dec. 31, 2005
Current assets:		
Cash and cash equivalents	\$ 1,173,983	\$ 4,653,548
Accounts receivable	822,403	4,048,137
Prepaid expenses	92,953	17,365
	<u>2,089,339</u>	<u>8,719,050</u>
Property and equipment (note 3)	18,567,214	12,739,203
Future income taxes	-	2,606,000
Notes receivable	-	477,253
Goodwill (note 2)	-	-
	<u>\$ 20,656,553</u>	<u>\$ 24,541,506</u>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 1,920,822	\$ 8,495,682
Loan payable (note 4)	10,000,000	-
	<u>11,920,822</u>	<u>8,495,682</u>
Asset retirement obligation	669,131	421,937
	<u>12,589,953</u>	<u>8,917,619</u>
Shareholders' equity:		
Share capital (note 5)	33,379,177	25,695,900
Contributed surplus	503,602	221,674
Deficit	(25,816,179)	(10,293,687)
	<u>8,066,600</u>	<u>15,623,887</u>
	<u>\$ 20,656,553</u>	<u>\$ 24,541,506</u>

Basis of presentation and going concern (Note 1)  
See accompanying notes to financial statements.

Approved by the Board:

("signed by")

Daniel R. Anderson, Director

("signed by")

Donald C.D. Eagleton, Director

## STATEMENTS OF OPERATIONS AND DEFICIT (UNAUDITED)

For the three months and nine months ending September 30, 2006 and 2005

	3 months ended Sept. 30, 2006	3 months ended Sept. 30, 2005	9 months ended Sept. 30, 2006	9 months ended Sept. 30, 2005
<b>Revenue:</b>				
Petroleum and natural gas sales	\$ <b>1,468,414</b>	\$ 587,411	<b>4,420,872</b>	\$ 652,399
Royalties	<b>(228,344)</b>	(12,427)	<b>(549,738)</b>	(14,280)
Interest and other income	<b>37,987</b>	25,277	<b>75,812</b>	99,236
	<b>1,278,057</b>	600,261	<b>3,946,946</b>	737,355
<b>Expenses:</b>				
Operating	<b>426,479</b>	360,998	<b>941,613</b>	445,736
Depletion, depreciation, and accretion	<b>16,936,734</b>	167,495	<b>19,118,994</b>	255,162
Write-off of goodwill (note 2)	<b>2,841,890</b>	-	<b>2,841,890</b>	-
Stock based compensation	<b>91,510</b>	76,775	<b>300,859</b>	138,002
Interest	<b>326,955</b>	-	<b>524,274</b>	-
General and administrative	<b>374,381</b>	182,718	<b>1,382,808</b>	763,216
	<b>20,997,949</b>	787,986	<b>25,110,438</b>	1,602,116
Loss before income taxes	<b>(19,719,892)</b>	(187,725)	<b>(21,163,492)</b>	(864,761)
Future income tax reduction	<b>(5,211,000)</b>	(32,000)	<b>(5,641,000)</b>	(280,000)
Net Loss	<b>(14,508,892)</b>	(155,725)	<b>(15,522,492)</b>	(584,761)
Deficit, beginning of period	<b>(11,307,287)</b>	(593,379)	<b>(10,293,687)</b>	(164,343)
Deficit, end of period	\$ <b>(25,816,179)</b>	\$ (749,104)	<b>(25,816,179)</b>	\$ (749,104)
Loss per share – basic and diluted (note 5c)	\$ (0.44)	\$ (0.01)	\$ (0.49)	\$ (0.03)

See accompanying notes to financial statements.

## STATEMENTS OF CASH FLOWS (UNAUDITED)

For the period ending September 30, 2006 and 2005

	3 months ended Sept. 30, 2006	3 months ended Sept. 30, 2005	9 months ended Sept. 30, 2006	9 months ended Sept. 30, 2005
<b>Cash provided by (used in):</b>				
<b>Operations:</b>				
Net loss	\$ (14,508,892)	\$ (155,725)	\$ (15,522,492)	\$ (584,761)
Depletion, depreciation and accretion	16,936,734	167,495	19,118,994	255,162
Stock based compensation	91,510	76,775	300,859	138,002
Write-off of goodwill	2,841,890		2,841,890	
Future income tax reduction	(5,211,000)	(32,000)	(5,641,000)	(280,000)
	150,242	56,545	1,098,251	(471,597)
Change in non-cash working capital	103,080	(360,484)	846,016	(739,197)
	253,322	(303,939)	1,944,267	(1,210,794)
<b>Financing:</b>				
Issue of share capital, net of share issuance costs	20,000	9,557,035	9,270,346	10,378,090
Repayment of notes receivable	488,835	-	477,253	10,000
Loan advances	-	-	18,100,000	-
Loan repayments	-	-	(8,100,000)	-
Change in non-cash working capital	-	43,279	(34,347)	(103,815)
	508,835	9,600,314	19,713,252	10,284,275
<b>Investments:</b>				
Acquisition of property and equipment	(1,490,680)	(3,839,121)	(9,222,069)	(12,323,344)
Disposition of property and equipment	-	-	7,329,457	-
Acquisition of limited partnership units (note 2)	-	-	(19,008,089)	1,919,874
Change in non-cash working capital	650,646	(587,017)	(4,236,383)	-
	(840,034)	(4,426,138)	(25,137,084)	(10,403,470)
Increase (decrease) in cash and cash equivalents	(77,877)	4,870,237	(3,479,565)	(1,329,989)
Cash and cash equivalents, beginning of period	1,251,860	3,921,387	4,653,548	10,121,613
Cash and cash equivalents, end of period	\$ 1,173,983	\$ 8,791,624	1,173,983	\$ 8,791,624

Cash and cash equivalents consists of:

Term deposits	<b>\$ 1,132,866</b>	\$ 7,000,000	<b>\$ 1,132,866</b>	\$ 7,000,000
Bank balances	<b>41,117</b>	1,791,624	<b>41,117</b>	1,791,624
	<b>\$ 1,173,983</b>	\$ 8,791,624	<b>\$ 1,173,983</b>	\$ 8,791,624

There was no taxes paid during the periods and interest paid of \$326,955 and \$524,274 for the three and nine months ended September 30, 2006

See accompanying notes to financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

### 1. Basis of presentation and going concern

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 exploring and developing petroleum and natural gas properties in Western Canada. These interim statements have assumed the Company will continue operations as a going concern. The Company has a deficit, and recurring losses from operations and the Company will be required to repay existing loans payable by December 31, 2006 (note 4). Continuing operations are dependant upon the ability of the Company to access adequate funding to meet debt repayment obligations and continue its exploration and development program, and achieve profitable operations. The financial statements do not reflect adjustments to assets, liabilities and operations that would be necessary should the going concern assumption be inappropriate.

### 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	\$22,873,699
Goodwill	2,841,890
Asset retirement obligation	(66,500)
Future income taxes	<u>(6,641,000)</u>
	<u>\$19,008,089</u>

At September 30, 2006 management assessed the fair value of the business and the goodwill has been written-off during the period.

### 3. Property and equipment

	September 30, 2006			December 31, 2005
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Petroleum and natural gas properties	50,564,796	32,070,155	18,494,641	12,701,898
Office equipment	103,683	31,110	72,753	37,305
	50,668,479	32,101,265	18,567,214	12,739,203

At September 30, 2006, \$1,382,641 (December 31, 2005 - \$6,986,897) of undeveloped land have been excluded from the depletion calculation. During the period ended September 30, 2006, \$58,125 (September 30, 2005 - \$33,750) of general and administrative costs have been capitalized.

The Corporation performed a ceiling test calculation at September 30, 2006 to assess the recoverable value of the petroleum and natural gas properties. The petroleum prices are based on September, 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	61.00	5.19
2007	65.25	7.14
2008	62.25	7.61
2009	56.75	7.55
2010	53.50	7.16

Based on these assumptions the undiscounted value of the future net revenues from Waveform's proved reserves did not exceed the carrying value of the petroleum and natural gas assets and a write-down of \$15,851,177 was recorded.

At September 30, 2006 the Company is committed to expend approximately \$4.7 million on eligible exploration expenses under flow-through agreements.

#### 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 December 31, 2006 with the payment as the Company paid an extension fee of \$100,000 during the third quarter. The Company has been in discussion with the lender who has requested payment by year-end. The Company is in violation of certain loan covenants.

#### 5. Share capital

(a) Issued and outstanding

Class A Shares	Sept 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)	110,167	73,933	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>32,118,631</b>	<b>\$ 28,261,745</b>	<b>27,461,264</b>	<b>\$ 20,578,468</b>

Class B Shares	Sept 30 2006		December 31, 2005	
	No. of Shares	Value	No. of Shares	Value
<b>Class B Shares</b>				
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>\$ 33,379,177</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 the first and second anniversary dates of the grant and expire in five years from the date of grant.

	September 30, 2006		December 31, 2005	
	Number of	Weighted	Number of	Weighted

	options	average exercise price	options	average exercise price
Beginning of period	1,871,400	0.88	-	-
Granted	406,667	1.02	2,418,000	0.87
Cancelled	(173,333)	1.25	(310,834)	1.21
Exercised	(110,167)	0.50	(235,766)	0.40
Outstanding end of period	1,994,567	0.69	1,871,400	0.88
Exercisable – end of period	1,192,567	0.61	602,733	0.89

Exercise Price	Options outstanding		Options exercisable	
	Number	Weighted Average Remaining Life (years)	Number	Weighted Average Remaining Life (years)
\$0.40	1,076,567	3.25	828,233	3.25
\$1.00	400,000	4.9	133,333	4.9
\$1.23	50,000	3.8	33,333	3.8
\$1.40	100,000	3.40	66,667	3.40
\$2.04	368,000	3.9	131,000	3.9
	1,994,567		1,192,567	

(c) Loss per share:

The weighted average number of shares outstanding for the nine months ended September 30, 2006 was 31,898,370 (September 30, 2005 – 20,803,203) and for the three months ended September 30, 2006 was 33,071,682 (September 30, 2005 – 22,757,566). 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 \$115,583 (September 30, 2005 - \$42,686) for general corporate legal fees, to a legal firm of which an officer is counsel, and is included in general and administrative expense, share issue costs and acquisition costs. The Corporation paid \$274,469 (September 30, 2005 - \$364,883) to an oil and gas service company in which a previous director and officer of the Corporation is a director and sole shareholder, and which payments are included in property and equipment. The Corporation paid \$16,732 (September 30, 2005 - \$62,630) to an oil and gas service company in which a director of the Corporation is a director and an officer, and which payments are included in property and equipment.