

WAVEFORM ENERGY LTD.

AUGUST 29, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") for WaveForm Energy Ltd. ("WaveForm" or the "Company") should be read in conjunction with the interim unaudited financial statements and notes of the Company for the six months ended June 30, 2007 and the audited financial statements of the Company for the year ended December 31, 2006. This MD&A incorporates information up to and including August 29, 2007. The financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). All of the amounts reported in this MD&A are in Canadian dollars, unless otherwise indicated. Certain other information with respect to the Company is available on SEDAR, at www.sedar.com and at the Company's website at www.waveformenergy.com. Additional information can also be obtained by contacting the Company at WaveForm Energy Ltd, Suite 1700, 520, 5th Ave. S.W., Calgary, Alberta, T2P 3R7.

NON-GAAP FINANCIAL MEASUREMENTS

The Company has used certain measures of financial reporting that are commonly used benchmarks within the oil and gas industry in this MD&A that are considered non-GAAP measures. The measures used in this document include "funds from operations" and "funds from operations per share". The term cash flow from operations contained within the MD&A should not be considered as an alternative to, or more meaningful than, cash flow from operating activities as determined in accordance with GAAP. The Company believes that cash flow from operations is a useful supplementary measure as investors may use this information to analyze operating performance, leverage and liquidity. Funds from operations, as disclosed within this MD&A, represents funds from operations before changes in non-cash working capital. The Company presents funds from operations per share whereby per share amounts are calculated consistent with the calculation of earnings per share. These non-GAAP measures may not necessarily be comparable to similarly titled measures used by other entities and readers of this MD&A are cautioned in attempting to make such comparisons.

OTHER MEASUREMENTS

For the purposes of calculating unit costs, natural gas has been converted to a barrel of oil equivalent ("BOE") using 6,000 cubic feet (6 Mcf) of natural gas equal to one barrel of oil (6:1), unless otherwise stated. The BOE conversion ratio of 6 Mcf to 1 barrel is based on an energy equivalency conversion method and does not represent a value equivalency. Therefore BOEs may be misleading if used in isolation. References to natural gas liquids ("NGLs") in this MD&A include condensate, propane, butane and ethane and one barrel of NGLs is considered to be equivalent to one barrel of crude oil equivalent (BOE).

ADVISORY REGARDING FORWARD LOOKING STATEMENTS

Certain statements included or incorporated by reference in the MD&A constitute forward-looking statements or forward-looking information under applicable securities legislation. Forward-looking statements or information typically contain statements with words such as “anticipate”, “expect”, “plan”, “intend”, “estimate”, “propose”, or similar words suggesting future outcomes or statements regarding an outlook. Forward-looking statements in this MD&A include, but are not limited to, statements with respect to reserves, crude oil and natural gas prices, well productivity, operating costs, general and administrative costs, taxation rates, interest rates, and capital expenditure plans for 2007 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 contributes to the possibility that although 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, 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. Existing or potential investors are cautioned that the foregoing list of important factors is not exhaustive. Furthermore, the forward-looking statements contained in this document are made as of the date this report, effective August 29, 2007, 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, unless so required by applicable securities laws. The forward-looking statements contained herein are expressly qualified by this cautionary statement.

THE COMPANY

WaveForm is a junior oil and gas company whose shares have publicly traded on the TSX Venture Exchange since January, 2005 under the trading symbols “WE.A” and “WE.B” for the Class A and Class B shares respectively. The Company is focused on the acquisition, exploration and development of oil and natural gas production in western Canada. Its principal properties are in the Tableland area of southeast Saskatchewan and Rowley and Ferrier areas of Alberta.

PRINCIPAL PROPERTIES

Tableland

WaveForm currently owns 45,070 acres in the Tableland area of southeast Saskatchewan, consisting of 24,993 of crown lands and 20,077 acres of freehold lands. The Company produces 38 API oil from 10 wells in the Ratcliff zone. Average production was 102 BOED net for the three months ended June 30, 2007. In early May 2007, the Company acquired all of the issued and outstanding shares of Stone Castle Exploration Ltd., which increased its interest in Tableland production to 100%, before royalties. Production for the month of June was 112 BOED.

On March 23, 2007, WaveForm announced that it has entered into a Letter Agreement with a private U. S. based oil and gas company ("Farmee") whereby the Farmee shall have the right to earn a 70% working interest in the Company's non-producing land holdings in the Tableland area. The Farmee commenced drilling operations for a Bakken horizontal well on August 3, 2007 and should complete operations in early September. Upon fulfilling its obligations, the Farmee shall earn a 70% working interest (after payout) in the section comprising the Bakken well. Thereafter, the Farmee may earn a 70% working interest in the remainder of WaveForm's Tableland non-producing holdings by drilling either a second Bakken horizontal well or by drilling a vertical well to a depth that would test the Winnipegosis Formation. Each well is expected to cost approximately \$3.5 million.

Rowley

Waveform has 2,720 gross (2,528 net) acres in the Rowley area of Alberta. The Company produces natural gas from two wells. The Company owns 100% working interest in one well which produces from the Mannville and Pekisko zones. The Company has a 70% working interest in a second well with production coming from the Mannville. Average net production from the two wells amounted to 81 boed during the three months ended June 30, 2007. Production for the month of June was 77 boed. Waveform has drilled a well in the Rowley field and is currently conducting testing and completion operations.

Ferrier

Waveform has 1,920 (640 net) acres and 12 square miles of 3D seismic in the Ferrier area of Alberta. The Company produces natural gas from two wells producing from the Shunda and Ellerslie zones. WaveForm has a 37.5% non operated working interest in one well. WaveForm has a 25% non operated working interest (with a 15% gross overriding royalty on 25% of production) in a second well which will be converted to a 37.5% working interest after payout, which is expected to have occurred in early July. Production for the month of June was 61 boed net from the two wells. Average net production from the two wells amounted to 61 boed for the three months ended June 30, 2007. Production trends continue to confirm the long-life reserves assigned to the 3-12 well. After payout of the 3-12 well, total Ferrier production is expected to increase to approximately 85 boed net to WaveForm. The Company had identified one potential location for drilling in the Shunda zone and one potential recompletion target in the Rock Creek Formation in one of the existing wells.

ACQUISITION OF STONE CASTLE EXPLORATION LTD. (“Stone Castle”)

On May 7, 2007, the Company acquired all of the issued and outstanding share capital of Stone Castle Exploration Ltd. (“Stone Castle”), a private oil and gas company with properties jointly held with the Company in Saskatchewan. Shareholders in Stone Castle received units comprised of 0.5 Class A share of the Company and 0.5 warrant to acquire a Class A share. Each warrant is exercisable at \$0.20 per share until June 30, 2007, \$0.30 per share until December 31, 2007 and \$0.40 per share until expiry on December 31, 2008. On closing, the Company issued 6,192,500 common shares and 6,192,500 warrants from treasury. The Company also advanced funds to Stone Castle of \$1.6 million which were used to pay third party indebtedness of Stone Castle. The Company increased its loan to its secured lender by an additional \$1 million to \$9 million to partially fund the repayment of indebtedness of Stone Castle.

The acquisition provided the Company with approximately 37 boed of oil production and an additional 13,358 net acres, comprising of 7,444 of crown and 5,914 acres of freehold lands in Tableland, Saskatchewan.

SUMMARY FINANCIAL RESULTS

	Three months ended June 30, 2007	Three months ended June 30, 2006	Six months ended June 30, 2007	Six months ended June 30, 2006
Revenues, net of royalties	\$ 1,012,296	\$ 1,530,342	\$ 1,895,556	\$ 2,668,888
Cash flow (deficiency) from operations (before changes in non cash working capital)	\$ 17,718	\$ 345,939	\$ (255,323)	\$ (948,009)
Funds from (used in) operations (before changes in non cash working capital) per share	\$ 0.00	\$ 0.01	\$ (0.004)	\$ 0.03
Net loss and comprehensive income (loss)	\$ (1,199,711)	\$ (492,643)	\$ (804,377)	\$ (1,013,600)
Net loss and comprehensive income (loss) per share	\$ (0.02)	\$ (0.01)	\$ (0.01)	\$ (0.03)
Total assets at end of period	\$ 18,865,964	\$ 39,811,632	\$ 18,865,964	\$ 39,811,632

PETROLEUM SALES AND PRODUCTION

	Three months ended June 30, 2007	Three months ended June 30, 2006	Six months ended June 30, 2007	Six months ended June 30, 2006
Daily average crude oil sales (bbls/d)	103	196	94	219
Daily average natural gas sales (mcf/d)	723	1079	702	429
Daily average natural gas liquid sales (bbls/d)	19	16	21	6
Total daily average sales (boe/d)	243	392	232	297
Average price received – petroleum sales (per barrel)	\$65.42	\$69.59	\$63.38	\$62.65
Average price received – natural gas sales (per mcf)	\$7.14	\$5.32	\$7.27	\$5.32
Average price received – natural gas liquid sales	\$50.19	\$61.23	\$49.57	\$61.23
Total operating revenue, net of royalties	\$ 1,006,825	\$ 1,517,405	\$ 1,887,303	\$ 2,649,217

The Company's average crude oil sales has declined significantly from 238 barrels per day realized during the three months ended March 31, 2007 to 94 barrels per day for the current period principally reflecting the decline in the Company's Tableland production. Natural gas and natural gas liquids sales reflect production from Ferrier and Rowley that was acquired in April 2006. Total corporate average equivalent production for the three months ended June 30, 2007, was 244 BOED. Total production for the month of June, was 249 BOED. After payout of the Ferrier 3-12 well which is expected to have occurred in July, the Company's current production base is estimated to be in the region of 270 BOED. Average price received from crude oil sales increased by 7% during the three months ended March 31, 2007 compared to the same period in 2006.

ROYALTIES

	Three months ended June 30, 2007	Three months ended June 30, 2006	Six months ended June 30, 2007	Six months ended June 30, 2006
Crown royalties	\$ 160,585	\$ 162,803	\$ 303,566	\$ 204,102
Freehold royalties	6,889	14,752	11,814	22,620
Gross overriding royalties	28,650	48,626	45,466	94,672
Total royalty expense	196,124	226,381	360,846	321,394
Average royalty rate	16.30%	12.98%	16.05%	10.82%

Total royalty expense increased from \$321,394 during the six months ended June 30, 2006 to \$360,846 for the same period in 2007. Average royalty rate also increased from 10.82% in 2006 to 16.05% in 2007. Production revenues from Tableland in Saskatchewan has benefited from crown royalty holidays resulting from deep horizontal well incentives. The increase in average royalty rate principally results from royalties paid on production acquired during the second quarter of 2006.

OPERATING EXPENSES

	Three months ended June 30, 2007	Three months ended June 30, 2006	Six months ended June 30, 2007	Six months ended June 30, 2006
Operating costs	\$ 180,398	\$ 258,364	\$ 473,537	\$ 515,134
Operating costs per boe	\$ 8.16	\$ 7.24	\$ 11.28	\$ 9.65

Operating costs per barrel of oil equivalent has increased from \$9.65 during the six months ended June 30, 2006 to \$11.28 per boe during the same period in 2007. The increase in operating costs results from lower production volumes in the Tableland area.

DEPLETION/DEPRECIATION AND ACCRETION EXPENSE

	Three months ended June 30, 2007	Three months ended June 30, 2006	Six months ended June 30, 2007	Six months ended June 30, 2006
Depreciation of office equipment	\$ 3,992	\$ 4,901	\$ 7,985	\$ 8,447
Accretion of asset retirement obligation	7,009	13,022	16,081	22,443
Depletion and depreciation of petroleum and natural gas properties	476,384	881,271	905,476	94,672
Total depletion, depreciation and accretion	\$ 487,385	\$ 899,194	\$ 929,542	\$ 2,182,260

Total depletion, depreciation and accretion expense declined significantly during the six months ended June 30, 2007 compared to the same period in 2006. The reduction results from lower production volumes coupled with a provision for impairment that was recorded in 2006 against the Company's carrying value of oil and gas properties.

GOODWILL

The Company periodically assesses the carrying value of goodwill for impairment. The Company concluded that the carrying value of goodwill was impaired at June 30, 2007. Accordingly, the entire carrying value was written off by a charge against earnings during 2007.

GENERAL AND ADMINISTRATIVE EXPENSE

Gross general and administrative expenses amounted to \$1,148,849 for the six months ended June 30, 2007 compared to \$1,008,427 for the same period in 2006. The increase principally results from higher manpower and consulting costs, and office costs offset in part by the lack of any overhead recovery during 2007 when no wells were drilled by the Company.

INCOME TAXES

The Company has recorded a loss before income taxes of \$2,234,377 during the six months ended June 30, 2007 compared with a loss of \$1,443,600 for the same period in 2006. As a result, the Company has recorded reduction in future income taxes at June 30, 2007 and has reduced its future income taxes to nil.

NET LOSS AND COMPREHENSIVE INCOME (LOSS)

Although the Company has recorded a pre tax loss of \$2,234,377 for the six months ended June 30, 2007, as a result of the recording of future income tax recoveries of \$1,430,000, the Company has recorded net loss and comprehensive loss, after taxation, of \$804,377.

CASH FLOW FROM OPERATIONS

	Three months ended June 30, 2007	Three months ended June 30, 2006	Six months ended June 30, 2007	Six months ended June 30, 2006
Revenues, net of royalties	\$ 1,012,296	\$ 1,530,342	\$ 1,895,556	\$ 2,668,888
Operating costs	(180,398)	(258,364)	(473,537)	(515,134)
General and administrative costs	(621,101)	(728,720)	(1,148,849)	(1,008,427)
Interest cost	(193,069)	(197,319)	(528,493)	(197,319)
Funds from (used in) operations, before changes in non-cash working capital	17,728	345,939	(255,323)	948,009
Change in non-cash working capital	67,031	800,284	123,216	742,938
Cash flow from (used in) operating activities	84,759	1,146,223	(132,107)	1,690,945

During the six months ended June 30, 2007, the Company used funds from operations, before non cash working capital changes, of \$255,323 compared to funds from operations, before non cash working capital changes, of \$948,009 for the same period last year. The use of funds arose as a result of lower production volumes, higher overhead and impact of interest expense on debt that resulted from the acquisition of additional properties in April 2006.

CAPITAL EXPENDITURES

Set out below is the summary of capital expenditures incurred on property and equipment during the three and six months ended June 30, 2007 and 2006.

	Three months ended June 30, 2007	Three months ended June 30, 2006	Six months ended June 30, 2007	Six months ended June 30, 2006
Acquisition, net of Disposals	\$ 65,108	\$ 11,098,510	\$ 123,599	\$ 12,769,091
Geological and geophysical	10,568	103,613	12,091	175,255
Drilling and completion	33,555	384,292	205,658	5,892,662
Equipment and facilities	(57,290)	58,517	106,477	525,850
Other	-	27,163	-	47,163
	\$ 51,941	\$ 11,672,095	\$ 447,825	\$19,410,021

During the six months ended June 30, 2006 the Company acquired Alberta gas properties for \$19.0 million and disposed of the Antler assets for \$7.3 million.

FINANCING ACTIVITIES

On January 15, 2007, the Company completed an equity financing, comprising of 32 million Class A Shares, and 32 million warrants to acquire Class A Shares, raising gross proceeds of \$4 million. Each warrant is exercisable into one Class A Share at a price of \$0.125 per share until March 31, 2007, thereafter at \$0.20 per share until June 30, 2007, thereafter at \$0.30 per share until December 31, 2007, and thereafter at \$0.40 per share until expiry on December 31, 2008. In addition, the Company raised an additional \$1,491,625 on the exercise of warrants. Of the equity proceeds, the Company utilized \$2 million to reduce its senior debt from \$10 million to \$8 million with the balance of the proceeds added to the Company's cash.

In March 2006, the Company issued 2,916,700 Class A "flow through" shares at \$2.40 per share for gross proceeds of \$7 million. Effective December 31, 2006, The Company has renounced \$7 million to investors for income tax purposes. The Company is committed to spend 100% of the proceeds raised on qualifying exploration and development expenditures. At June 30, 2007, the Company is committed to incur expenditures of \$4,612,274 in expenditures during 2007 to meet its flow through obligations.

With respect to debt, at December 31, 2006, the Company had \$10 million of loan that remained outstanding. On January 15, 2007, the Company repaid \$2 million of the loan reducing the principal amount to \$8 million. On May 7, 2007, the loan was increased to \$9 million and the expiry date of the loan was extended to December 31, 2007. As consideration for the increased loan and extension, WaveForm issued 5,000,000 warrants to purchase 5,000,000 Class A shares of the Corporation to its lender. The warrants have an exercise price of \$0.15 until the loan is repaid and thereafter at a price of \$0.175.

During July, 2007, the Corporation reached an agreement with Brookfield Bridge Lending Fund Inc. to enter into a debt restructuring and financing proposal to restructure the Corporation's capital structure, working capital and debt. The Financing Agreement provided for the conversion of the \$9 million senior secured credit facility previously provided by the Fund to a \$9 million principal amount of convertible senior secured debenture and a private placement of up to \$4,461,026 of Units of Class A shares and warrants of the Corporation.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2006, the Company had \$142,052 in cash and cash equivalents. Net financing activities during the first quarter of 2007 resulted into cash inflow of \$5,220,864 principally from the issue of equity, offset by repayment of a portion of debt facilities. The Company's investment activities consumed \$4,031,792 of cash resources, principally on Stone Castle acquisition, capital expenditures on the Company's properties and repayment of accounts payable. As a result, the Company's cash resources were increased to \$1,196,349, including \$500,000 of restricted cash held in trust under the loan agreements, during the six months ended June 30, 2007.

On January 15, 2007, the Company closed a private placement of 32 million units at \$0.125 per unit, comprising of 32 million Class A shares and 32 million of warrants to purchase Class A shares until December 31, 2008 at prices varying from \$0.125 per share to \$0.40 per share. This private placement raised gross proceeds of \$4 million on closing. In addition, during 2007, to date, the Company issued 11,933,000 Class A shares on the exercise of warrants raising an additional equity of \$1,491,625 in the form of cash which was added to treasury. In aggregate, the Company has raised \$5,491,625 in additional cash by way of equity during 2007 to date.

The Company presently has a loan outstanding of \$9 million repayable on December 31, 2007. The Company continues to be in a working capital deficit and will need to secure additional equity, debt or a combination thereof in order to be able to pay off the loan in full on due date.

As of August 29, 2007, the Company had limited cash resources of approximately \$1.0 million. The Company remains undercapitalized to exploit all available opportunities that are available to it. The Company has executed a farmout which provides for the drilling of up to two wells on Company lands at no cash cost to the Company. As at June 30, 2007, the Company was committed to incur additional exploration and development expenditures of \$4,612,274 in order to meet its flow through obligations before the end of 2007. The Company continues to examine all strategic options that are available to it to maximize shareholder value.

EQUITY

Set out below is the Company's equity capital structure as at the dates indicated:

	August 29, 2007	June 30, 2007	December 31, 2006
Class A shares	82,246,831	82,246,831	32,118,631
Class B shares	935,616	935,616	935,616
Warrants to purchase Class A shares	36,359,500	36,359,500	-
Stock options - outstanding	6,049,999	6,049,999	1,645,333

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	
2007 (six months)	\$97,875
2008	195,750
2009	195,750
2010	195,750
2011	65,250

During 2006, the Company incurred \$7 million through the issuance of flow through shares and has renounced \$7 million of exploration expenditures to investors. At June 30, 2007, the Company had incurred \$2,387,806 in eligible expenditures and was committed to incur the remaining \$4,612,274 of expenditures during 2007 to meet its flow through commitments. In May 2007, as a result of the amalgamation of Stone Castle, the Corporation increased its debt facility with its principal lender by \$1 million to \$9 million and extended the repayment of the debt facility to December 31, 2007.

RELATED PARTY TRANSACTIONS

During the six months ended June 30, 2007, the Corporation incurred an expenditure of \$239,583 (six months ended June 30, 2006 - \$96,061) for legal services, disbursements and regulatory costs payable to a legal firm of which an officer is an associate and a director is counsel. These fees are included in general and administrative expense, share issuance costs and acquisition costs. The Corporation incurred \$268,400 (six months ended June 30, 2006 - \$25,000) for financing advisory fees payable to a Company of which a director of the Corporation is an officer, prior to his appointment as a director of the Corporation. The Corporation paid \$33,696 (six months ended June 30, 2006 - \$Nil) for services rendered (in connection with due diligence with respect to a corporate acquisition) to a company controlled by a director of the Corporation. The fees are included in general and administrative expense. All transactions were completed on the basis of fair market value and general market terms and conditions.

NEW ACCOUNTING POLICIES

The Company follows generally accepted accounting principles in Canada. Effective January 1, 2007, the Company has adopted the new Canadian accounting standards for financial instruments – recognition and measurement, presentation and disclosures, hedging and comprehensive income. There is no material impact as a result of the adoption of the new accounting standards on the Company's financial statements for the current period or prior period.

DISCLOSURE CONTROLS AND PROCEDURES

The Company has established disclosure controls and procedures for the preparation of financial and other reports. The Chief Executive Officer and the Acting Chief Financial Officer have concluded, based upon their evaluation, that the design and operation of these disclosure controls and procedures are adequate and effective in providing reasonable assurance that material information related to the Company, is made known to them by employees or third party consultants working for the Company. It should be noted that while the Company's Chief Executive Officer and Acting Chief Financial Officer believe that the disclosure controls and procedures will provide a reasonable level of assurance that they are effective, they do not expect that the disclosure controls and procedures will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute assurance that the objectives of the control system are met.

INTERNAL CONTROL OVER FINANCIAL REPORTING

The Chief Executive Officer and Acting Chief Financial Officer of the Company are responsible for designing internal controls over financial reporting or causing them to be designed under their supervision in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

The design of the internal control over financial reporting was assessed as of December 31, 2006. During this process, management identified certain material weaknesses in internal controls over financial reporting which are as follows:

- a) Due to the limited number of staff of WaveForm, it is not possible to achieve a proper segregation of duties; and
- b) Due to the limited number of staff, WaveForm does not have technical accounting expertise and knowledge to address all complex and non-routine financial transactions that may arise.

These weaknesses in WaveForm's internal controls over financial reporting result in a more than remote likelihood that a material misstatement would not be prevented or detected. Management and the board of directors work to mitigate the risk of a material misstatement in financial reporting by segregating duties as much as possible under the circumstances. In addition, outside third party consulting expertise is utilized to assist in dealing with complex accounting and technical issues that arise during preparation of quarterly and annual financial statements. In spite of management's best efforts, there can be no assurance that this risk can be reduced to less than a remote likelihood of a material misstatement. No further material weaknesses other than those described above have been identified.

SELECTED QUARTERLY INFORMATION

	Three Months Ended			
	June 30, 2007	March 31, 2007	December 31, 2006	September 30, 2006
Revenue (net of royalties)	\$1,012,296	\$883,260	\$1,091,363	\$1,278,057
Net income (loss) and comprehensive income (loss)	(1,199,711)	395,334	(3,640,410)	(14,508,892)
Net income (loss) and comprehensive income (loss) per share	\$(0.02)	\$0.01	\$(0.13)	\$(0.44)

	Three Months Ended			
	June 30, 2006	March 31, 2006	December 31, 2005	September 30, 2005
Revenue	\$1,530,342	\$1,138,547	\$978,595	\$600,261
Net income (loss) and comprehensive income (loss)	(492,643)	(520,957)	(9,544,583)	(155,725)
Net income (loss) and comprehensive income (loss) per share	\$(0.01)	\$(0.02)	\$(0.34)	\$(0.01)

The Company steadily increased its revenues until the second quarter of 2006 and thereafter the revenues have declined principally as a result of lower production levels. Substantially losses in the fourth quarter of 2005 and the third and fourth quarter of 2006 result from providing for impairment allowance against the carrying value of the petroleum and natural gas properties.

OUTLOOK

The Company's existing financial position provides the Company with limited flexibility with respect to exploiting its asset base. Further equity infusion will be required to finance the ongoing capital program. The Company announced the farmout of its Bakken play in Saskatchewan where a well has commenced drilling. The Company is evaluating the potential of a well drilled at Rowley during August, 2007. There may be several follow-up drilling locations. The acquisition of Stone Castle will add to the operating cash flow of the Company. The Company continues to examine strategic alternatives to maximize shareholder value.

RISKS AND UNCERTAINTIES

The Company's business is subject to risks encountered in the oil and gas industry. The risks and uncertainties below are not the only issues facing the Company. Additional risks and uncertainties not presently known to WaveForm or that the Company currently considers immaterial may also impair the business and operations of WaveForm. If any of the following risks actually occur, the Company's business may be harmed and the financial condition and results of operations may suffer significantly.

Exploration, Development and Production Risks

Oil and natural gas exploration involves a high degree of risk and there is no assurance that expenditures made on future exploration by the Company will result in new discoveries of oil or natural gas in commercial quantities. It is difficult to project the costs of implementing an exploratory drilling program due to the inherent uncertainties of drilling is unknown formations, the costs associated with encountering various drilling conditions such as over pressured zones and tools lost in the hole, and changes in drilling plans and locations as a result of prior exploratory wells or additional seismic data and interpretations thereof.

The Company currently has a limited number of specific identified drilling prospects. The long-term commercial success of the Company depends on its ability to find, acquire, and develop and commercial produce oil and natural gas reserves. No assurance can be give that the Company will be able to locate additional drilling prospects. Substantial amounts may be expended on properties where reserves have yet to be proven.

Future oil and gas exploration may involve unprofitable efforts, not only from dry wells, but from wells that are productive but do not produce sufficient net revenues to return a profit after drilling, operating and other costs. Completion of a will does not assure a profit on the investment or recovery of drilling, completion and operating costs. In addition, drilling hazards or environmental damage could greatly increase the cost of operations and various field operating conditions may adversely affect the

production from successful wells. These conditions include delays in obtaining governmental approvals or consents, shut-ins of connected wells resulting from extreme weather conditions, insufficient storage or transportation capacity or other geological or mechanical conditions. While close well supervision and effective maintenance operations can contribute to maximizing production rates over time, production delays and declines from normal field operating conditions cannot be eliminated and can be expected to adversely affect revenue and cash flow levels to varying degrees.

In addition, oil and gas operations are subject to the risks of exploration, development and production of oil and natural gas properties, including encountering unexpected formations or pressures, premature declines or reservoirs, blow-outs, sour gas releases, fires and spills. Losses resulting from the occurrence of any of these risks could have a materially adverse effect on future results of operations, liquidity and financial condition.

Insurance

The Company's involvement in the exploration for and development of oil and gas properties may result in the Company becoming subject to liability for pollution, blow-outs, property damage, personal injury or other hazards. Although the Company has obtained insurance in accordance with industry standards to address such risks, such insurance has limitations on liability that may not be sufficient to cover the full extent of such liabilities. In addition, such risks may not, in all circumstances be insurable or, in certain circumstances, the Company may elect not to obtain insurance to deal with specific risks due to the high premiums associated with such insurance or other reasons. The payment of such uninsured liabilities would reduce the funds available to the Company. The occurrence of a significant event that the Company is not fully insured against, or the insolvency of the insurer of such event, could have a material adverse effect on the Company's financial position, results of operations or prospects.

Prices, Markets and Marketing of Crude Oil and Natural Gas

Oil and natural gas are commodities whose prices are determined based on world demand, supply and other factors, all of which are beyond the control of the Company. World prices for oil and natural gas have fluctuated widely in recent years. Any material decline in prices could result in a reduction of net production revenue. Certain wells or other projects may become uneconomic as a result of a decline in world oil prices and natural gas prices, leading to a reduction in the volume of the Company's oil and gas reserves. The Company might also elect not to produce from certain wells at lower prices. All of these factors could result in a material decrease in the Company's future net production revenue, causing a reduction in its oil and gas acquisition and development activities. In addition, bank borrowings available to the Company are in part determined by the borrowing base of the Company. A sustained material decline in prices from historical average process could limit or reduce the Company's borrowing base therefore reducing the bank credit available to the Company, and could require that a portion of any existing bank debt of the Company be repaid.

In addition to establishing markets for its oil and natural gas, the Company must also successfully market its oil and natural gas to prospective buyers. The marketability and price of oil and natural gas which may be acquired or discovered by the Company will be affected by numerous factors beyond its

control. The Company will be affected by the difference between the price paid by refiners for light quality oil and the grades of oil produced by the Company. The ability of the Company to market its natural gas may depend upon its ability to acquire space on pipelines which deliver natural gas to commercial markets.

The Company will also likely be affected by deliverability uncertainties related to the proximity of its reserves to pipelines and processing facilities and related to operational problems with such pipelines and facilities and extensive government regulation relating to price, taxes, royalties, land tenure, allowable production, the export of oil and natural gas and many other aspects of the oil and natural gas business. The Company has a limited direct experience in the marketing of oil and natural gas.

Substantial Capital Requirements; Liquidity

The Company anticipates that it will make substantial capital expenditures for the acquisition, exploration, development and production of oil and natural gas reserves in the future. If the Company's revenues or reserves decline, the Company may have limited ability to expend the capital necessary to undertake or complete future drilling programs. There can be no assurance that debt or equity financing, or cash generated by operation will be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be on terms acceptable to the Company. Moreover, future activities may require the Company to alter its capitalization significantly. The inability of the Company to access sufficient capital for its operations could have a material adverse effect on the Company's financial condition, results of operations or prospects.

Competition

The oil and gas industry is highly competitive. The Company's competitors for the acquisition, exploration, production and development of oil and natural gas properties, and for capital to finance such activities, include companies that have greater financial and personnel resources available to them than the Company.

The Company's ability to successfully bid on and acquire additional property rights, to discover reserves, to participate in drilling opportunities and to identify and enter into commercial arrangements with customers will be dependent upon developing and maintaining close working relationships with its future industry partners and joint operators and its ability to select and evaluate suitable properties and to consummate transactions in a highly competitive environment.

Environmental Risks

All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of international conventions and state and municipal laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with oil and gas operations. The legislation also requires that wells and facility sites be

operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The discharge of oil, natural gas or other pollutants into the air, soil or water may give rise to liabilities to government and third parties and may require the Company to incur costs to remedy such discharge. No assurance can be given that environmental laws will not result in a curtailment of production or a material increase in the costs of production, development or exploration activities or otherwise adversely affect the Company's financial condition, results, operations or prospects.

Reserve Replacement

The Company's future oil and natural gas reserves, production, and cash flows to be derived there from are highly dependent on the Company successfully acquiring or discovering new reserves. Without the continual addition of new reserves, any existing reserves the Company may have at any particular time and the production there from will decline over time as such existing reserves are exploited. A future increase in the Company's reserves will depend not only on the Company's ability to select and acquire suitable producing properties or prospects. There can be no assurance that the Company's future exploration and development efforts will result in the discovery and development of additional commercial accumulations of oil and natural gas.

Reliance on Operators

The Company may not be the operator of certain oil and gas properties in which it acquires an interest. To the extent the Company is not the operator of its oil and gas properties, the Company will be dependent on such operators for the timing of activities related to such properties and will largely be unable to direct or control the activities of the operators.

Corporate Matters

Certain of the directors and officers of the Company may also be directors and officers of other oil and gas companies involved in natural resource exploration and development, and conflicts of interest may arise between their duties as officers and directors of the Company and as officers and directors of such other companies. Such conflicts must be disclosed in accordance with, and are subject to such other procedures and remedies as apply under the ABCA.

Permits and Licenses

The operations of the Company may require licenses and permits from various governmental authorities. There can be no assurance that the Company will be able to obtain all necessary licenses and permits that may be required to carry out exploration and development at its projects.

Additional Funding Requirements

The Company's cash flow from its reserves may not be sufficient to fund its ongoing activities at all times. From time to time, the Company may require additional financing in order to carry out its oil and gas acquisition, exploration and development activities. Failure to obtain such financing on a timely basis could cause the Company to forfeit its interest in certain acquisition opportunities and reduce or terminate its operations. If the Company's revenues from its reserves decrease as a result of lower oil and natural gas prices or otherwise, it will affect the Company's ability to expend the necessary capital to replace its reserves or to maintain its production. If the Company's cash flow from operations is not sufficient to satisfy its capital expenditure requirements, there can be no assurance that additional debt or equity financing will be available on favorable terms.

Issuance of Debt

From time to time, the Company may enter into transactions to acquire assets or the shares of other Companies. These transactions may be financed partially or wholly with debt, which may increase the Company's debt levels above industry standards. Neither the Company's articles nor its by-laws limit the amount of indebtedness that the Company may incur. The level of the Company's indebtedness from time to time could impair the Company's ability to obtain additional financing in the future on a timely basis to take advantage of business opportunities that may arise.

Availability of Drilling Equipment and Access Restrictions

Oil and natural gas exploration and development activities are dependant on the availability of drilling and related equipment in the particular areas where such activities will be conducted. Demand for such limited equipment or access restrictions may affect the availability of such equipment to the Company and may delay exploration and development activities.

Kyoto Protocol

Canada is a signatory to the United Nations Framework Convention on Climate Change and has ratified the Kyoto Protocol established hereunder to set legally binding targets to reduce nationwide emissions of carbon dioxide, methane, nitrous oxide and other so-called "greenhouse gases". The Company's exploration and production facilities and other operations and activities will emit a small amount of greenhouse gases which may subject the Company to legislation regulating emissions of greenhouse gases. The Government of Canada has put forward a Climate Change Plan for Canada which suggests further legislation will set greenhouse gases emission reduction requirements for the various industrial activities, including oil and gas exploration and production. Future federal legislation, together with provincial emission reduction requirements, such as those proposed in Alberta's Bill 32: Climate Change and Emissions Management may require the reduction of emissions or emissions intensity with the Company's operations and facilities. The direct or indirect costs of these regulations may adversely affect the business of the Company.

Tax Treatment of Flow-Through Shares

The tax treatment applicable with respect to oil and gas activities and Flow-Through shares constitutes a major factor when considering an investment in the Flow-Through shares. There is no guarantee that the taxation laws and regulations and the current administrative practices of both the federal and provincial tax authorities will not be amended or constructed in such a way that the tax consideration for a subscriber holding Class A Shares or Class B Shares will not be altered, and moreover there is no guarantee that there will not be any difference of opinion between the federal and provincial tax authorities with respect to the tax treatment of the Class A Shares or Class B Shares, the status of the Class A Shares or Class B Shares and the activities contemplated by the Company's exploration and development programs.

The Class A Shares and Class B Shares are designed for investors whose income is subject to high marginal tax rates. The right to deduct CEE accrued to the initial purchaser of Units and is not transferable. No guarantee can be given that Canadian tax laws will not be amended, that the amendments announced with respect to such laws will be adopted or that the current administrative practices of the tax authorities will not be modified. In addition, there is no guarantee that the projected tax deductions will be accepted by the Canada Revenue Agency. Consequently, the tax considerations for subscribers holding or selling Class A Shares or Class B Shares may be fundamentally altered.

There is no guarantee that an amount equal to the total proceeds or the sale of the Class A Shares and Class B Shares forming part of the Units will be expended on or prior to December 31, 2007 as Qualifying Expenditures. If the Company does not expend an amount equal to the proceeds from the sales of the Class A Shares and Class B Shares comprising of the Units so as to incur Qualifying Expenditures prior to December 31, 2007, the Company shall restate the amount of expenses that it has renounced in favor of the investors and the investors will be reassessed and will be requested to remit the tax benefits from which they would have benefited.

Financial Statements

WaveForm Energy Ltd.

Six Months Ended June 30, 2007

WAVEFORM ENERGY LTD.

BALANCE SHEETS

As at June 30, 2007 and December 31, 2006

(Unaudited)

	June 30, 2007	December 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 696,349	\$ 142,052
Restricted cash	500,000	-
Accounts receivable	641,204	1,241,300
Prepaid expenses	95,196	87,553
	<u>1,932,749</u>	<u>1,470,905</u>
Property and equipment (note 5)	16,933,215	15,478,823
	<u>\$ 18,865,964</u>	<u>\$ 16,949,728</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 802,691	\$ 1,804,347
Loan payable (note 6)	9,000,000	10,000,000
	<u>9,802,691</u>	<u>11,804,347</u>
Asset retirement obligation (note 7)	612,168	522,765
Shareholders' equity		
Share capital (note 8)	36,790,821	33,379,327
Warrants (note 8)	920,277	-
Contributed surplus (note 8)	1,000,973	699,878
Deficit	(30,260,966)	(29,456,589)
	<u>8,451,105</u>	<u>4,622,616</u>
Nature of business and future operations (note 1)		
Commitments (note 9)		
Subsequent events (note 14)		
	<u>\$ 18,865,964</u>	<u>\$ 16,949,728</u>

See accompanying notes to financial statements.

WAVEFORM ENERGY LTD.

STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS AND DEFICIT

For six months ended June 30, 2007 and 2006
(unaudited)

	Three months ended June 30, 2007	Three months ended June 30, 2006	Six months ended June 30, 2007	Six months ended June 30, 2006
REVENUE:				
Crude oil, natural gas, and natural gas liquids sales	\$ 1,202,949	\$ 1,743,786	\$ 2,248,149	\$ 2,970,611
Royalties	(196,124)	(226,381)	(360,846)	(321,394)
Interest and other income	5,471	12,937	8,253	19,672
	1,012,296	1,530,342	1,895,556	2,668,889
EXPENSES:				
Operating	180,398	258,364	473,537	515,134
General administrative	621,101	728,720	1,148,849	1,008,427
Depletion, depreciation and accretion	487,385	899,194	929,542	2,602,182
Write-off of goodwill	368,522	-	368,522	-
Stock based compensation	64,682	102,388	301,095	209,349
Financing (note 10)	464,919	197,319	908,388	197,319
	2,187,007	2,185,985	4,129,933	4,112,489
LOSS BEFORE INCOME TAXES	(1,174,711)	(655,643)	(2,234,377)	(1,443,600)
TAXATION				
Future income tax expense (reduction) (note 11)	25,000	(163,000)	(1,430,000)	(430,000)
NET LOSS AND COMPREHENSIVE LOSS	(1,199,711)	(492,643)	(804,377)	(1,013,600)
DEFICIT BEGINNING OF PERIOD	(29,061,255)	(10,814,844)	(29,456,589)	(10,293,687)
DEFICIT END OF PERIOD	\$ (30,260,966)	\$ (11,307,287)	\$ (30,260,966)	\$ (11,307,287)
Net loss and comprehensive income (loss) per share – basic and diluted (note 8e)	\$ (0.02)	\$ (0.01)	\$ (0.01)	\$ (0.03)

See accompanying notes to financial statements.

WAVEFORM ENERGY LTD.

STATEMENTS OF CASH FLOW

For six months ended June 30, 2007 and 2006

(unaudited)

	Three months ended June 30, 2007	Three months ended June 30, 2006	Six months ended June 30, 2007	Six months ended June 30, 2006
CASH PROVIDED BY (USED IN):				
OPERATIONS:				
Net loss and comprehensive income (loss)	\$ (1,199,711)	\$ (492,643)	\$ (804,377)	\$ (1,013,600)
Add (deduct) items not involving cash:				
Depletion, depreciation and accretion	487,385	899,194	929,542	2,182,260
Write-off of goodwill	368,522	-	368,522	-
Stock based compensation	64,682	102,388	301,095	209,349
Financing (note 10)	271,850	-	379,895	-
Future income tax expense (reduction)	25,000	(163,000)	(1,430,000)	(430,000)
	17,728	345,939	(255,323)	948,009
Change in non-cash working capital (note 13)	67,031	800,284	123,216	742,936
	84,759	1,146,223	(132,107)	1,690,945
FINANCING:				
Issue of shares and warrants	1,415,000	28,019	5,491,625	9,250,346
Share and warrant issuance costs	-	(11,582)	(231,469)	(11,582)
Restricted cash	(500,000)	-	(500,000)	-
Loan advances (repayments)	1,000,000	10,000,000	(1,000,000)	10,000,000
Loan repayments	(1,600,000)	-	(1,600,000)	-
Change in non-cash working capital (note 13)	208,456	(32,000)	31,831	(34,347)
	823,456	9,984,437	2,191,987	19,204,417
INVESTMENTS:				
Property and equipment expenditures	(51,941)	7,335,994	(447,825)	(401,932)
Acquisition of limited partnership units (note 4)	-	(19,008,089)	-	(19,008,089)
Acquisition of Stone Castle (note 4)	(150,534)	-	(150,534)	-
Change in non-cash working capital (note 13)	(237,924)	(1,044,557)	(907,223)	(4,887,029)
	(440,399)	(12,716,652)	(1,505,582)	(24,297,050)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	467,816	(1,585,992)	554,297	(3,401,688)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	528,533	2,837,852	142,052	4,653,548
CASH AND CASH EQUIVALENTS END OF PERIOD	\$ 696,349	\$ 1,251,860	\$ 696,349	\$ 1,251,860

See accompanying notes to financial statements.

SUPPLEMENTAL CASH FLOW INFORMATION:

	Three months ended June 30, 2007	Three months ended June 30, 2006	Six months ended June 30, 2007	Six months ended June 30, 2006
Interest received	\$ 5,471	\$ 12,937	\$ 8,253	\$ 19,672
Interest paid	193,068	-	528,493	197,320

NOTES TO THE FINANCIAL STATEMENTS

For six months ended June 30, 2007 and 2006

1. Nature of business and future operations

WaveForm Energy Ltd. (the "Corporation") is incorporated under the laws of the province of Alberta. The Corporation is engaged in the acquisition, development and exploration of petroleum and natural gas in Western Canada.

These financial statements have been prepared on the basis that the Corporation will continue its operations as a going concern. At June 30, 2007, the Corporation had a working capital deficiency of \$7,869,942, and had incurred recurring losses. At June 30, 2007, the Corporation had a loan payable of \$9 million. The loan has been extended to December 31, 2007. In July, the Corporation entered into a debt restructuring and financial agreement (see note 14). Continuing operations are dependant upon the ability of the Corporation to access adequate capital to continue its exploration and development program, meet flow through expenditure obligations, achieve profitable operations and its ability to extend its loan facilities. The financial statements do not reflect adjustments to assets, liabilities and operations that would be necessary should the going concern assumption be inappropriate.

2. Basis of presentation and changes in accounting policies

The unaudited interim financial statements have been prepared in accordance with Canadian generally accepted accounting principles, and following the same accounting policies as disclosed in the audited financial statements for the year ended December 31, 2006 except as disclosed in note 3. The disclosures provided herein are incremental to those included with the annual financial statements and do not include all of the disclosures required in the annual financial statements. These interim financial statements should be read in conjunction with the annual financial statements as at and for the year ended December 31, 2006. Certain period amounts have been reclassified to conform to current presentation.

3. Changes in accounting policies

Effective January 1, 2007, the Corporation has adopted the new Canadian accounting standards for financial instruments – recognition and measurement, presentation and disclosures, hedging and comprehensive income. There is no impact as a result of the adoption of the new Canadian accounting standards.

4. Acquisitions

(a) Acquisition of Stone Castle:

On May 7, 2007, the Corporation acquired all of the issued and outstanding shares of Stone Castle Exploration Ltd. ('Stone Castle') for total consideration of \$1,042,830 which was paid and satisfied by the issuance of 6,192,500 Class A Shares and 6,192,500 Class A Share purchase warrants to acquire Class A Shares at \$0.144 per unit. Stone Castle held a 35% working interest in the Tableland properties of which the Corporation held the other 65%. The acquisition has been recorded following the purchase method as follows:

WAVEFORM ENERGY LTD.

NOTES TO THE FINANCIAL STATEMENTS

For six months ended June 30, 2007 and 2006

The purchase price consists of:	
Units consisting of 0.5 Class A shares and 0.5 warrants	\$ 891,720
Acquisition costs	151,110
	\$ 1,042,830
Fair value of assets and liabilities:	
Property and equipment	\$ 2,055,984
Future income taxes	770,000
Goodwill	368,522
Current assets	3,243
Loan	(1,600,000)
Asset retirement obligation	(209,279)
Accounts payable	(345,640)
	\$ 1,042,830

The accounts payable are a direct offset to the receivables held by the Corporation from Stone Castle. The amounts recorded on the acquisition are based on preliminary information available to management. The above amounts are subject to change if the preliminary information obtained by management changes. At June 30, 2007, the value of goodwill has been assessed to be impaired and has been fully written off.

(b) 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	508,089
	\$ 19,008,089
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	(6,641,000)
	\$ 19,008,089

WAVEFORM ENERGY LTD.

NOTES TO THE FINANCIAL STATEMENTS

For six months ended June 30, 2007 and 2006

5. Property and equipment

	June 30, 2007		
	Cost	Accumulated Depletion, Depreciation and amortization	Net Book Value
Petroleum and natural gas properties	\$54,459,653	\$37,582,479	\$16,877,174
Office equipment	103,987	47,946	56,041
	\$54,563,640	\$37,630,425	\$16,933,215

	December 31, 2006		
	Cost	Accumulated Depletion, Depreciation and amortization	Net Book Value
Petroleum and natural gas properties	\$52,091,798	\$36,677,002	\$15,414,796
Office equipment	103,988	39,961	64,027
	\$52,195,786	\$36,716,963	\$15,478,823

At June 30, 2007, undeveloped land and seismic costs amounting to \$1,883,796 (December 31, 2006 - \$868,796) have been excluded from the depletion calculation. Future development costs of \$1,080,000 (December 31, 2006 - \$1,080,000) were added to the depletion calculation. In 2007, no general and administrative costs (December 31, 2006 - \$58,125) have been capitalized.

6. Loan Payable

On June 30, 2007, the Corporation had a senior secured debt facility (the "Facility"), that has a first charge on all assets of the Corporation for \$9 million, which was fully drawn. The Facility bears interest at bank prime rate plus 3% per annum. The loan has been extended to December 31, 2007.

7. Asset Retirement Obligation

The Corporation's asset retirement obligations result from net ownership interest in petroleum and natural gas assets. A credit adjusted risk free rate of 7.5% and an inflation rate of 1.5% were used to calculate the fair value of the asset retirement obligation for both June 30, 2007 and December 31, 2006. Undiscounted estimated cash flow of \$1,057,500 is required to settle the obligation.

WAVEFORM ENERGY LTD.

NOTES TO THE FINANCIAL STATEMENTS

For six months ended June 30, 2007 and 2006

7. Asset Retirement Obligation (continued)

	June 30, 2007	December 31, 2006
Beginning of period	\$ 522,765	\$ 421,937
Liabilities incurred	-	1,784
Accretion expense	16,081	32,544
Acquired on acquisition (note 4)	209,279	66,500
Change in estimates	(107,130)	-
Abandonment costs incurred	(28,827)	-
End of period	\$ 612,168	\$ 522,765

8. Share capital

(a) Authorized:

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 Corporation 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.

(b) Issued and outstanding:

Class A Shares	Six months ended June 30, 2007		Year ended December 31, 2006	
	Number of Shares	Value	Number of Shares	Value
Beginning of period	32,118,631	\$ 28,261,895	27,461,264	\$ 20,578,468
Issued for cash (note 8c)	32,000,000	3,298,240	1,630,500	3,000,120
Flow through shares issued for cash (note 8d)	-	-	2,916,700	7,000,080
Stock options exercised (note 8i)	-	-	110,167	73,933
Warrants exercised	11,933,000	1,491,625	-	-
Transfer of carrying value on exercise of warrants (Valued at \$701,760)		261,691		
Future tax effect of flow- through shares		(2,275,000)		(1,873,000)
Share issue costs (net of future income taxes of \$61,842 (2006 - \$267,000))		(157,950)		(517,706)
Issued for Stone Castle Acquisition (note 8g)	6,192,500	792,888		
End of period	82,244,131	\$ 31,673,389	32,118,631	\$ 28,261,895

WAVEFORM ENERGY LTD.

NOTES TO THE FINANCIAL STATEMENTS

For six months ended June 30, 2007 and 2006

8. Share capital (continued)

(b) Issued and outstanding (continued):

Class B Shares	Six months ended June 30, 2007		Year ended December 31, 2006	
	Number of Shares	Value	Number of Shares	Value
Beginning and end of period	935,616	\$ 5,117,432	935,616	\$ 5,117,432
End of period – Class A and Class B shares	83,179,747	\$ 36,790,821	33,054,247	\$ 33,379,327

(c) Issued for cash:

In January 2007, the Corporation issued 32,000,000 Units at \$0.125 per unit for gross proceeds of \$4,000,000. The Units consisted of one Class A share and one warrant. The Black-Scholes Model methodology was used to determine the allocation of values between Class A shares and warrants. In March 2006, the Corporation issued 1,630,500 Class A shares at \$1.84 per share for gross proceeds of \$3,000,120

(d) Flow-through shares:

In March 2006, the Corporation issued 2,916,700 Class A “flow through” shares at \$2.40 per share for gross proceeds of \$7,000,080. The Corporation is committed to spend 100% of the funds on qualifying exploration and development expenditures. Effective December 31, 2006 in accordance with the terms of the share subscription agreements, the Corporation renounced for income tax purposes, \$7,000,080 to holders of Class A shares. At June 30, 2007 the Corporation had incurred \$2,387,806 in eligible expenditures. At June 30, 2007, the Corporation is committed to incur the remaining \$4,612,274 of expenditures during the balance of 2007.

(e) Net loss and comprehensive income (loss) per share:

The basic weighted average number of Class A and Class B shares outstanding for the six months ended June 30, 2007 were 70,204,649 (June 30, 2006 – 31,289,000) and for the three months ended June 30, 2007 was 62,794,290 (June 30, 2006 – 31,283,888)

Diluted weighted average number of Class A and Class B shares outstanding as at June 30, 2007 were 78,625,193. The dilutive effect of outstanding options and warrants is calculated using the treasury stock method. During the six months ended June 30, 2006, all warrants and options would have an anti-dilutive effect on the loss per share as the Corporation was in a loss position

(f) Stock option plan:

The Corporation has a stock option plan for directors, officers, employees and consultants. 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.

WAVEFORM ENERGY LTD.

NOTES TO THE FINANCIAL STATEMENTS

For six months ended June 30, 2007 and 2006

8. Share capital (continued)

(f) Stock option plan (continued):

	Six months ended June 30, 2007		Year ended December 31, 2006	
	Number of warrants	Value	Number of warrants	Value
Beginning of period	1,645,333	\$ 0.60	1,871,400	\$ 0.88
Granted	5,800,000	0.20	400,000	1.00
Forfeited	(1,395,334)	0.57	(515,900)	1.17
Exercised	-	-	(110,167)	0.50
Outstanding end of period	6,049,999	\$ 0.29	1,645,333	\$ 0.60
Exercisable – end of period	2,566,660	\$ 0.31	1,203,662	\$ 0.61

Exercise Price	Options outstanding at June 30, 2007		Options exercisable at June 30, 2007	
	Number	Weighted Average Remaining Life (years)	Number	Weighted Average Remaining Life (years)
\$0.15	300,000	4.8	99,999	4.8
\$0.20	4,833,333	4.5	1,833,330	4.5
\$0.40	450,000	2.5	450,000	2.5
\$1.00	400,000	4.0	133,333	4.0
\$2.04	66,666	3.1	49,998	3.1
	6,049,999		2,566,660	

The weighted average fair value of all options granted during the six months ended June 30, 2007 was \$0.20 (year ended December 31, 2006 - \$0.40).

The fair value of options granted during the six months ended June 30, 2007 of \$653,488 (year ended December 31, 2006 - \$158,483) was calculated using a risk free rate of 4%, dividend yield of 0%, volatility factor of 75%, and an expected life of 5 years. The value of the options was recorded as stock based compensation expense, with an offsetting amount to contributed surplus based upon the vesting period.

WAVEFORM ENERGY LTD.

NOTES TO THE FINANCIAL STATEMENTS

For six months ended June 30, 2007 and 2006

8. Share capital (continued)

(g) Warrants:

	Six months ended June 30, 2007		Year ended December 31, 2006	
	Number of warrants	Value	Number of warrants	Value
Beginning of period	-	-	-	-
Issued with shares January 2007	32,000,000	\$ 701,760	-	-
Issued to brokers January 2007	1,600,000	35,088	-	-
Issued loan extension January 2007	3,500,000	108,045	-	-
Exercised (Issued with shares January 2007) March 2007	(613,000)	-	-	-
Transfer of carrying value on exercise of warrants in March 2007	-	(13,443)	-	-
Warrant issue costs (Net of future Income taxes of \$13,158 (2006 - \$nil))	-	(33,607)	-	-
Issued loan extension May 2007	5,000,000	271,850	-	-
Issued Stone Castle's shareholders May 2007 (note 4)	6,192,500	98,832	-	-
Exercised (Issued with shares January 2007) April 2007	(11,320,000)	-	-	-
Transfer of carrying value on exercise of warrants in April 2007	-	(248,248)	-	-
End of period	36,359,500	\$ 920,277	-	-

In January 2007, the Corporation issued 32,000,000 Units at \$0.125 per unit for gross proceeds of \$4,000,000. The Units consisted of one Class A share and one Warrant. The Black-Scholes model methodology was used to determine the allocation of value between Class A shares and warrants. Each warrant is exercisable into one Class A Share at a price of \$0.125 per share until March 31, 2007 (extended to April 3, 2007), thereafter at \$0.20 per share until June 30, 2007, thereafter at \$0.30 per share until December 31, 2007, and thereafter at \$0.40 per share until expiry on December 31, 2008.

In January 2007, the Corporation issued 1,600,000 warrants to its financing agent. Each warrant is exercisable into one Class A Share at a price of \$0.125 per share until March 31, 2007 (extended to April 3, 2007), thereafter at \$0.20 per share until June 30, 2007, thereafter at \$0.30 per share until December 31, 2007, and thereafter at \$0.40 per share until expiry on December 31, 2008.

In January 2007, the Corporation issued 3,500,000 warrants to its lender as consideration for the loan extension. Each warrant is exercisable into one Class A Share at a price of \$0.15 per share, before the Facility is fully paid, \$0.125 upon full repayment of the Facility, until expiry on December 31, 2008.

NOTES TO THE FINANCIAL STATEMENTS

For six months ended June 30, 2007 and 2006

8. Share capital (continued)

(g) Warrants (continued):

In May 2007, the Corporation issued 12,385,500 units at \$0.144 per unit for gross proceeds of \$891,720 to the shareholders of Stone Castle Exploration Ltd. The units consisted of 0.5 Class A share and 0.5 warrant. The Black-Scholes Model methodology was used to determine the allocation of values between Class A shares and warrants. Each warrant is exercisable into one Class A share at a price of \$0.20 per share until June 30, 2007, thereafter at \$0.30 per share until December 31, 2007 and thereafter at \$0.40 per share until expiry on December 31, 2008.

In May 2007, as a result of the amalgamation of Stone Castle, the Corporation increased its debt facility with its principal lender by \$1 million to \$9 million and extended the repayment of the debt facility to December 31, 2007. As consideration for the increased loan and extension, WaveForm issued 5,000,000 warrants to purchase 5,000,000 Class A shares of the Corporation to its lender. The warrants have an exercise price of \$0.15 until the loan is repaid and thereafter at a price of \$0.175.

(h) Escrowed shares

Pursuant to an Escrow Agreement dated October 28, 2004 a total of 6,179,000 Class A shares of certain officers, directors, employees, and principal shareholders are being held in escrow. On January 7, 2005 when the shares of the Corporation were listed on the TSX Venture exchange, 10% of the escrowed shares were released. The remaining 90% have been released in 15% increments during consecutive 6 month periods following the listing. As of June 30, 2007, 1,822,188 Class A shares remain in escrow, with the following release dates remaining being July 11, 2007 and January 11, 2008.

(i) Contributed surplus

A summary of change in the Corporation's contributed surplus balance for the year ended December 31, 2006 and six months ended June 30, 2007 is as follows:

Balance – January 1, 2006	\$	221,674
Stock based compensation related to fair value of options granted		497,136
Options and warrants exercised		(18,932)
Balance – January 1, 2007		699,878
Stock based compensation related to fair value of options granted		301,095
Balance – June 30, 2007	\$	1,000,973

WAVEFORM ENERGY LTD.

NOTES TO THE FINANCIAL STATEMENTS

For six months ended June 30, 2007 and 2006

9. Commitments

The Corporation has the following office rental commitments, which expires April 30, 2011, on June 30, 2007:

2007 (six months)	\$	97,575
2008		195,750
2009		195,750
2010		195,750
2011		65,250

10. Financing cost

	Three months ended June 30, 2007	Three months ended June 30, 2006	Six months ended June 30, 2007	Six months ended June 30, 2006
Interest	\$ 193,069	\$ 197,319	\$ 528,493	\$ 197,319
Extension fee – grant of warrants	271,850	-	379,895	-
	\$ 464,919	\$ 197,319	\$ 908,388	\$ 197,319

11. Future income taxes

The provision for income taxes in the financial statements differs from the result which would be obtained by applying the federal and provincial tax rate to the Corporation's earnings before income taxes. This difference results from the following items:

	Six months ended June 30, 2007
Net loss before income taxes	\$ (2,234,377)
Combined federal and provincial tax rate	32.12%
Computed "expected" income tax expense	(718,000)
Increase resulting from:	
Non-deductible items	333,000
Change in tax rate	(62,000)
Resource allowance	-
Valuation allowance	(983,000)
Future income tax reduction	\$ (1,430,000)

WAVEFORM ENERGY LTD.

NOTES TO THE FINANCIAL STATEMENTS

For six months ended June 30, 2007 and 2006

11. Future income taxes (continued)

The components of the Corporation's net future income tax asset are as follows:

Property, and equipment	\$	802,000
Share issuance costs		(613,000)
Non capital losses		(843,000)
Valuation allowance		654,000
<hr/>		
Net future income tax asset (liability)	\$	-

The Corporation has accumulated non-capital losses for income tax purposes of approximately \$2,800,000 which are available against future taxable income. Unless sufficient taxable income is earned, these losses will expire as follows, approximately \$1,800,000 from 2006 and earlier expires before 2017 and approximately \$1,000,000 from 2007 will expire by 2027.

12. Related party transactions

During the six months ended June 30, 2007, the Corporation incurred an expenditure of \$239,583 (six months ended June 30, 2006 - \$94,061) for legal services, disbursements and regulatory costs payable to a legal firm of which a director is counsel. These fees are included in general and administrative expense, share issuance costs and acquisition costs. The Corporation incurred \$268,400 (six months ended June 30, 2006 - \$25,000) for financing advisory fees payable to a Company of which a director of the Corporation is an officer, prior to his appointment as a director of the Corporation. The Corporation paid \$33,696 (six months ended June 30, 2006 - \$Nil) for services rendered (in connection with due diligence with respect to a corporate acquisition) to a company controlled by a director of the Corporation. All transactions were completed on the basis of fair market value and general market terms and conditions.

13. Changes in non-cash working capital

	Three months ended June 30, 2007	Three months ended June 30, 2006	Six months ended June 30, 2007	Six months ended June 30, 2006
Decrease (increase in non-cash working capital)				
Accounts receivable	\$ 527,134	\$ (4,696,269)	\$ 600,095	\$ (2,874,819)
Prepaid expenses	(27,106)	153,738	(4,975)	81,515
Accounts payable and accrued liabilities	(462,465)	12,623,138	(1,347,296)	6,971,744
Net Change in non-cash working capital	\$ 37,563	\$ 8,080,607	\$ (752,176)	\$ 4,178,440
Relating to:				
Operations	\$ 67,031	\$ 800,284	\$ 123,216	\$ 742,936
Financing	208,456	(32,000)	31,831	(34,347)
Investments	(237,724)	(1,044,557)	(907,223)	(4,887,029)
	\$ 37,563	\$ (276,273)	\$ (752,176)	\$ (4,178,440)

WAVEFORM ENERGY LTD.

NOTES TO THE FINANCIAL STATEMENTS

For six months ended June 30, 2007 and 2006

14. Subsequent events

During July, 2007, the Corporation reached an agreement (the "Financing Agreement") with Brookfield Bridge Lending Fund Inc. (the "Fund") to enter into a debt restructuring and financing proposal to restructure the Corporation's capital structure, working capital and debt. The Financing Agreement provided for the conversion of the \$9 million senior secured credit facility previously provided by the Fund to a \$9 million principal amount of convertible senior secured debenture and a private placement of up to \$5,005,000 of Units at \$0.11 per Unit consisting of one Class A share and one Class A Share purchase warrants of the Corporation with each whole warrant exercisable into Flow-Through Class A Shares at \$0.12 per share until December 31, 2008.