WAVEFORM ENERGY LTD.
2006 HIGHLIGHTS

- The addition of Bob Goods as President, CEO and a Director. Mr. Goods has 30 years of experience as a senior officer and has been the president of several junior oil and gas companies. His experience as COO and Vice-President of Husky Energy have given him extensive knowledge of the oil and gas prospects in western Canada and will help the Company take advantage of growth opportunities on its strong land position in western Canada.
- The acquisition of 325 boe/d in the Ferrier and Rowley areas of Alberta. The acquisition has long reserve life production, with a reserve life index of 8.7 years and provides low risk infill and step-out drilling opportunities with strong economic potential.
- The disposition of 38 bbls/d of production in the Antler area for $7.1 million to focus on the remaining undeveloped lands of the Company.
- Proved plus probable reserves discounted at 10% of $27.9 million*. The majority of the wells in the independent reserve report had production histories of less than 3 months and has been risked significantly under the National Instrument 51-101 standards.
- Production of 600 boe/d* with high netback production and working capital to fund the ongoing capital program.
- Announced 2006 exit production rate of 950 boe/d* based on additional capital expenditures of $5.9 million.

* These values are as of April 1, 2006 and include the Ferrier and Rowley assets acquired and exclude the Antler assets which were sold.

The 2006 year to date represents a significant period for the Company in terms of its strategic direction. Looking forward, the Company has drilling inventory of varied risk, depth, and production potential. The acquisition of the Ferrier and Rowley assets in April, 2006 added further drilling inventory which adds low risk infill and step-out drilling locations, existing stable production and multi-zone potential for potential upside on the lands. The acquisition of natural gas producing fields in Ferrier and Rowley also provides for a natural hedge with light oil, and premium priced natural gas. This stable production base will provide the Company the capital to fund the ongoing capital program and develop its land base.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") for WaveForm Energy Ltd. ("WaveForm" or the "Company"), prepared as at May 31, 2006, provides a review of the first quarter of 2006 operating results and a consideration of the Company's future opportunities. The MD&A should be read in conjunction with the Audited Financial Statements for the year ended December 31, 2005 and the unaudited interim financial statements for the three month period ended March 31, 2006. The Financial Statements and Extracts of those statements provided within this MD&A were prepared using Canadian dollars and are in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). Certain other information with respect to the Company is available on SEDAR, at www.sedar.com and at WaveForm's website at www.waveformenergy.com.

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 statements of cash flows. The Company also presents cash flow from operations per share whereby per share amounts are calculated using weighted average shares outstanding consistent with the calculation of income per share.

For the purposes of calculating unit costs, natural gas has been converted to a barrel of oil equivalent ("boe") using a conversion rate of six thousand cubic feet equal to one barrel ("6:1"). This conversion is based upon energy equivalence at the burner tip and does not represent a value equivalency at the well head. The financial information presented has been prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP). The reporting and measurement currency is the Canadian dollar.

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. 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 May 31, 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 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. The Company is in the process of assimilating data generated by a 54 square mile seismic program across the core of the land base. This will help refine and optimize the drilling location selection for the Midale Evaporite and Bakken formations. Management is optimistic about the possibility of having economically viable deeper zones on its land base. There are six deeper zones, and several shallow zones, which are generating production very close to WaveForm's land base. Effective April 1, 2006, the Company acquired producing properties in the Ferrier and Rowley areas of Alberta, through the acquisition of a limited partnership, which provide 325 boe/d of production, and low risk step out and infill drilling opportunities going forward.

With the current production base and existing working capital the Company plans to continue to develop the Midale Evaporite Formation in southeast Saskatchewan, and exploit newly acquired opportunities in Ferrier and Rowley. The Company will evaluate other opportunities in deeper zones in each of the areas for further drilling opportunities. The Company's proprietary imaging technology will be utilized to enhance development methods. The existing production base of 600 boe/d as of April 1, 2006 provides high netback cash flow to fund the ongoing capital program and take advantage of the Company's large land holdings and diverse drilling inventory.

DRILLING RESULTS

Q1 2006	Wells Drilled	Producing Oil Wells	Shut-in	Abandoned
Tableland area	3 (2 net)	2 (1.3 net)	1 (0.65 net)	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 currently has 8 (4.3 net) producing oil wells for a 67% 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.

SUMMARY OF FINANCIAL RESULTS

	March 31, 2006	March 31, 2005
Revenues, net of royalties	$1,138,547	$42,565
Cash flow from operations	$602,070	$(251,159)
Cash flow from operations per share	$0.02	(0.01)
Net loss	($520,957)	($159,630)
Net loss per share	($0.02)	($0.01)
Total assets	$26,203,686	$14,214,554

PETROLEUM SALES AND PRODUCTION

	March 31, 2006	March 31, 2005
Daily average petroleum production (bbls/d)	238	n/a
Average price received	$56.91	n/a
Revenue, net of royalties	$1,138,547	$42,565

The first quarter production for 2006 averaged 238 bbls/d net which was comprised of an average of 224 bbls/d net from Tableland (Midale Evaporite Formation) and 14 bbls/d net from Antler (Torquay Formation). The production rate for the Tableland area was lowered due to the majority of the wells being shut-in for a period of 3 to 4 weeks for production and pressure testing during February and early March. The Antler area had producing wells on stream from early in the first quarter, and with continued drilling throughout the quarter had an exit production rate of 38 bbls/d net to WaveForm. Effective April 1, 2006, the Company sold its interests in the Antler area for $7.1 million, and acquired 325 boe/d in the Ferrier and Rowley areas of Alberta through the acquisition of a limited partnership for $18.5 million, increasing the production base to approximately 600 boe/d. The 600 boe/d is comprised of light oil, and natural gas with high netback production to fund the ongoing capital program.

ROYALTIES

	March 31, 2006	March 31, 2005
Crown royalties	$41,299	-
Freehold royalties	$7,868	-
Gross overriding royalties	$45,846	-
Total royalty expense	**$95,013**	-

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.

OPERATING EXPENSES

	March 31, 2006	March 31, 2005
Operating costs	$256,770	-
Operating costs per barrel	$11.91	-

The operating costs on the Midale Evaporite wells in Tableland were $10.58 per bbl for the first 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. Operating costs in aggregate are higher still because of high operating costs in Antler, at an average of $23.86 per bbl for the first quarter of 2006.

DEPLETION AND DEPRECIATION EXPENSE

	March 31, 2006	March 31, 2005
Depletion, depreciation and accretion expense consists of:		
Depreciation of office equipment	$3,546	883
Accretion of asset retirement obligation	9,411	-
Depletion of petroleum and natural gas properties	1,270,109	-
Amortization of technology license	-	16,940
Total depletion, depreciation, and accretion	**$1,283,066**	**$17,823**

At March 31, 2006 the net book value of the petroleum and natural gas assets exceeded the fair value from an independent reserve report, and a ceiling test write-down of $203,000 was recorded. The remaining net book value of petroleum and natural gas assets represents the discounted future proved plus probable cash flows from wells currently drilled, plus the undeveloped land costs. Under the National Instrument 51-101 standards the definition of what constitutes reserves is stringent and new discoveries such as the Midale Evaporite with a limited production history, and no analog wells for comparison are risked accordingly.

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. The technology license was fully amortized at December 31, 2005.

GENERAL AND ADMINISTRATIVE EXPENSE

	March 31, 2006	March 31, 2005
General and administrative expense – gross	$471,521	$293,724
Overhead recovery	(133,689)	-
Capitalized amounts	(58,125)	-
General and administrative expenses – net	**$279,707**	**$293,724**

The general and administrative expenses were $279,707 for the quarter ended March 31, 2006 and $293,724 for the quarter ended March 31, 2005. As capital activity has increased, additional resources are required including people, software, equipment and other resources to effectively operate a drilling program which reflects the increase in gross G&A costs. The G&A costs for the first quarter of 2006 are reflective of the ongoing expected general and administrative expenses.

INCOME TAXES

The Company had a loss from operations for the three months period ended March 31, 2006 which resulted in a corresponding future tax recovery. The future tax asset was created primarily through the ceiling test write-down taken at December 31, 2005 which caused a reduction of the net book value of the assets of the Company that are less than the tax pools remaining to shelter future income streams. The future net revenues in the reserve report exceed the current tax pools available and the future tax asset has been recorded on the balance sheet.

For the quarter ended March 31, 2005, the Company did not have commercial production and therefore, the future tax assets were not recorded on the balance sheet.

NET LOSS AND CASH FLOW USED IN OPERATIONS

	March 31, 2006	March 31, 2005
Revenues, net of royalties	$1,138,547	$42,565
Operating costs	(256,770)	-
General and administrative costs	(279,707)	(293,724)
Cash flow from operations, before changes in working capital	$602,070	($251,159)

The net loss of $520,957 for the first quarter of 2006 consists primarily of depletion, depreciation, and accretion. On a cash flow basis, the Company had positive quarterly cash flow. With the acquisition of an additional 325 boe/d of production effective April 1, 2006 the Company expects increasing cash flows from operations.

The net loss in the first quarter of 2005 of $159,630 was not indicative of Company activity due to the fact that the capital program had not yet begun.

CAPITAL EXPENDITURES

A breakdown of the capital expenditures for the three months ended March 31, 2006 and 2005 is as follows:

	March 31, 2006	March 31, 2005
Land acquisition, net of disposals	$1,670,581	$38,887
Geological and geophysical	71,642	53,822
Drilling and completion	5,508,370	4,626,732
Equipment and facilities	467,333	-
Other	20,000	5,765
	$7,737,926	**$4,725,206**

LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2006, the Company had $2,837,852 in cash and cash equivalents and $2,309,839 in net working capital. The Company currently has positive cash flow from operations to fund the capital program, and maintain positive working capital. Subsequent to period end the Company acquired a limited partnership with 325 boe/d of production which has increased the cash flow from which to operate the capital program.

EQUITY

As at March 31, 2006 the Company had 32,017,131 Class A common shares outstanding, 935,616 Class B shares, and 1,869,400 options outstanding at a weighted average exercise price of $0.88 per common share. As at May 26, 2006 the Company has 32,018,131 Class A common shares and 935,616 Class B common shares outstanding.

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	$114,188
2007	195,750
2008	195,750
2009	195,750
2010	195,750

RELATED PARTY TRANSACTIONS

During the first quarter of 2006, the Company incurred $13,056 for general corporate legal fees to a legal firm of which a partner is an officer of WaveForm. These fees are included in general and administrative expense. The Company incurred $193,564 to an oil and gas service company of which a director of the Company is also the sole shareholder. This amount is included in property and equipment. The Company incurred $16,732 to an oil and gas service company which a director of the Company is a director, and officer. This is included in property and equipment.

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

SUBSEQUENT EVENTS

On April 6, 2006 the Company entered into a purchase and sale agreement with a private limited partnership to acquire all of the issued and outstanding units of the partnership for cash consideration of $18.5 million. The transaction is effective April 1, 2006 and closed April 21, 2006. The partnership assets include two producing gas fields with undeveloped acreage for further exploration and development.

The Company financed the partnership acquisition through a senior secured debt facility that has a first charge on all assets of the Company. The debt facility is for initially for $18.5 million, and bears interest at prime plus 3%. The borrowing base of the debt facility must be reduced to $12.0 million or $10.0 million if the certain assets are sold, within 30 days of the closing of the acquisition. The remaining facility is due 180 days from the closing date of the acquisition, with an option to extend to December 31, 2006 with the payment of 1% of the then outstanding amount of the loan. To reduce the borrowing base on the debt facility the Company sold certain assets for $7.1 million.

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 dependent on external sources of financing which may not be available on acceptable terms.

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

QUARTERLY INFORMATION

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

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

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)

OUTLOOK

The first quarter of 2006 was an important period in terms of defining strategic direction for the Company. Looking forward, the Company has drilling inventory of varied risk, depth, and production potential. The acquisition of the limited partnership in April of 2006 added further drilling inventory which adds low risk infill and step-out drilling locations, existing stable production, and multi-zone potential to explore for potential upside on the lands. The acquisition of natural gas producing fields in Ferrier and Rowley also provides for a natural hedge with light oil, and premium priced natural gas. This stable production base will provide the Company the capital to fund the ongoing capital program and develop its land base.

ADDITIONAL INFORMATION

Additional information relating to WaveForm is filed on SEDAR and can be viewed at www.sedar.com. Information can also be obtained by contacting the Company at WaveForm Energy Ltd, Suite 1700, 520 - 5th Ave. S.W., Calgary, Alberta, T2P 3R7, or on the Company's website at www.waveformenergy.com.

Amended Financial Statements of

WaveForm Energy Ltd.

Three Months ended March 31, 2006

WAVEFORM ENERGY LTD.

Balance Sheets (unaudited)

March 31, 2006

Assets		Mar. 31, 2006		Dec. 31, 2005
Current assets:				
Cash and cash equivalents	$	2,837,852	$	4,653,548
Accounts receivable		2,226,687		4,048,137
Prepaid expenses		89,588		17,365
		5,154,127		8,719,050
Property and equipment (note 2)		19,305,306		12,739,203
Future income taxes		1,267,000		2,606,000
Notes receivable		477,253		477,253
	$	26,203,686	$	24,541,506

Liabilities and Shareholders' Equity				
Current liabilities:				
Accounts payable and accrued liabilities	$	2,844,288	$	8,495,682
Asset retirement obligation		533,180		421,937
		3,377,468		8,917,619
Shareholders' equity:				
Share capital (note 3)		33,321,093		25,695,900
Contributed surplus		319,769		221,674
Deficit		(10,814,644)		(10,293,687)
		22,826,218		15,623,887
	$	26,203,686	$	24,541,506

(Subsequent events note 5)
See accompanying notes to financial statements.

Approved by the Board:

"signed" *Daniel K. Anderson*
Daniel K. Anderson, Director

"signed" *Donald C.D. Eagleton*
Donald C.D. Eagleton, Director

WAVEFORM ENERGY LTD.

Statements of Operations and Deficit (unaudited)

		Three months ended March 31, 2006		Three months ended March 31, 2005
Revenue:				
Petroleum sales	$	1,226,825	$	-
Royalties		(95,013)		-
Interest and other income		6,735		42,565
		1,138,547		42,565
Expenses:				
Operating		256,770		
Depletion, depreciation and accretion		1,283,066		17,823
Stock based compensation		106,961		21,648
General and administrative		279,707		293,724
		1,926,504		333,195
Loss before income taxes		(787,957)		(290,630)
Future income tax reduction		(267,000)		(131,000)
Net Loss		(520,957)		(159,630)
Deficit, beginning of period		(10,293,687)		(164,343)
Deficit, end of period		(10,814,644)		(323,973)
Loss per share – basic and diluted (note 3c)	$	(0.02)	$	(0.01)

See accompanying notes to financial statements.

WAVEFORM ENERGY LTD.

Statements of Cash Flows (unaudited)

	Three months ended March 31, 2006	Three months ended March 31, 2005
Cash provided by (used in):		
Operations:		
Net loss	$ (520,957)	$ (159,630)
Add (deduct) items not involving cash:		
Depletion, depreciation and accretion	1,283,066	17,823
Stock based compensation	106,961	21,648
Future income tax reduction	(267,000)	(131,000)
	602,070	(251,159)
Change in non-cash working capital	(57,348)	(351,631)
	544,722	(602,790)
Financing:		
Issue of share capital, net of share issuance costs	9,222,327	169,606
Change in non-cash working capital	(2,347)	(147,094)
	9,219,980	22,512
Investments:		
Acquisition of property and equipment	(7,737,926)	(4,725,206)
Change in non-cash working capital	(3,842,472)	586,778
	(11,580,398)	(4,138,428)
Increase in cash and cash equivalents	(1,815,696)	(4,718,706)
Cash and cash equivalents, beginning of period	4,653,548	10,121,613
Cash and cash equivalents, end of period	$ 2,837,852	$ 5,402,907
Cash and cash equivalents consists of:		
Term deposits	$ 122,706	$ 5,026,255
Bank balances	2,715,146	376,652
	2,837,852	5,402,907

There was no interest or taxes paid during the periods.
See accompanying notes to financial statements.

WAVEFORM ENERGY LTD.

Notes to the Financial Statements

1. Basis of Presentation

The interim financial statements of Waveform Energy Ltd. ("Waveform") have been prepared in accordance with Canadian generally accepted accounting principles and are consistent with the presentation and disclosure in the audited financial statements and notes thereto for the year ended December 31, 2005. The interim financial statements contain disclosures which are incremental to Waveform's annual financial statements. Certain disclosures, which are normally required to be included in the notes to the financial statements have been condensed or omitted. The interim financial statements should be read in conjunction with Waveform's audited financial statements and notes thereto for the year ended December 31, 2005.

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

2. Property and equipment

	March 31, 2006			December 31, 2005
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Petroleum and natural gas properties	34,776,100	(15,524,553)	19,251,547	12,701,898
Office equipment	75,608	(21,849)	53,759	37,305
	34,851,708	(15,546,402)	19,305,306	12,739,203

At March 31, 2006, $4,092,547 (December 31, 2005 - $6,986,897) of undeveloped land and seismic costs have been excluded from the depletion calculation. During the period ended March 31, 2006, $58,125 (March 31, 2005 - $Nil) of general and administrative costs have been capitalized.

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

	Company Average (Canadian $/bbl)	West Texas Intermediate (US $/bbl)
2006	69.15	64.50
2007	64.78	65.00
2008	61.01	60.00
2009	55.22	55.00
2010	54.15	50.00

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. The Company recorded an impairment loss of $203,000 which is recognized as increased depletion in the period. The carrying value of capitalized costs was reduced to the value of discounted future net revenues from production of proved and probable reserves plus the cost of unproved properties.

3. Share capital

(a) Issued and outstanding

	March 31, 2006			December 31, 2005		
Class A Shares	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)	8,667		23,267	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 - $508,400)			(525,274)			(713,587)
Class A shares, end of year	**32,017,131**	**$**	**28,203,661**	**27,461,264**	**$**	**20,578,468**

	March 31, 2006			December 31, 2005		
Class B Shares	No. of Shares		Value	No. of Shares		Value
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
Class B shares, end of year	**935,616**	**$**	**5,117,432**	**935,616**	**$**	**5,117,432**
Balance, end of year			**33,321,093**			**25,695,900**

(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.

	March 31, 2006		December 31, 2005	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Beginning of period	1871,400	0.88	-	-
Granted	6,667	2.04	2,418,000	0.87
Cancelled	-		(310,834)	1.21
Exercised	8,667	1.66	(235,766)	0.40
Outstanding end of period	1,869,400	0.88	1,871,400	0.88
Exercisable – end of period	1,082,400	0.72	602,733	0.89

	Options outstanding		Options exercisable	
Exercise Price	Number	Weighted Average Remaining Life (years)	Number	Weighted Average Remaining Life (years
$0.40	1,261,400	3.75	829,733	3.75
$1.23	50,000	4.3	33,333	4.3
$1.40	100,000	3.9	66,667	3.9
$2.04	458,000	4.4	152,667	4.4
	1,869,400		1,082,400	

(c) Loss per share:
The weighted average number of shares outstanding during the period was 29,577,527 (March 31, 2005 – 19,801,482). The Corporation is in a loss position so any conversion of Class B shares, options, or warrants would be anti-dilutive to the loss per share.

4. Related party transactions

During the period, the Corporation paid $13,056 (March 31, 2005 - $13,391) for general corporate legal fees, to a legal firm of which a director is counsel, and is included in general and administrative expense and share issue costs. The Corporation paid $193,564 (March 31, 2005 - $105,612) to an oil and gas service company which a director and officer of the Corporation is a director and sole shareholder, and is included in property and equipment. The Corporation paid $16,732 (March 31, 2005 - $Nil) to an oil and gas service company which a director of the Corporation is a director and an officer, and is included in property and equipment.

5. Subsequent event

On April 6, 2006 the Corporation entered into a purchase and sale agreement with a private limited partnership to acquire all of the issued and outstanding units of the partnership for cash consideration of $18.5 million. The transaction is effective April 1, 2006 and closed April 21, 2006. The partnership assets include two producing gas fields with undeveloped acreage for further exploration and development.

The Corporation has financed the acquisition through a senior secured debt facility that has a first charge on all assets of the Corporation. The debt facility is for initially for $18.5 million, and bears interest at prime plus 3%. The borrowing base of the debt facility must be reduced to $12.0 million, or $10.0 million if the certain assets are sold, within 30 days of the closing of the acquisition. The remaining facility is due 180 days from the closing date of the acquisition, with an option to extend to December 31, 2006 with the payment of 1% of the then outstanding amount of the loan. To reduce the borrowing base on the debt facility, the Corporation sold certain assets for $7.1 million.