

Unaudited Consolidated Financial Statements of

PE-TECH INC.

For the Second Quarter ended May 31, 2003 and 2002

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PE-TECH INC.

Consolidated Balance Sheets

Unaudited - Prepared by Management

	As At May <u>31, 2003</u>	As At November <u>30, 2002</u>
ASSETS		
CURRENT		
Cash	\$ 215,937	\$ 87,907
Accounts receivable	338,468	252,906
Investment tax credit recoverable	-	-
Prepaid expenses	19,417	28,588
Inventory	191,196	257,522
	<hr/> 765,018	<hr/> 626,923
CAPITAL ASSETS (Note 6)	382,682	387,558
INTANGIBLE ASSETS (Note 7)	225,076	239,681
DEPOSITS	14,523	12,228
INCORPORATION COSTS	2,579	2,752
	<hr/> \$ 1,389,878	<hr/> \$ 1,269,142
LIABILITIES		
CURRENT		
Bank indebtedness	\$ 99,988	\$ 100,604
Accounts payable and accrued liabilities	622,466	645,183
Unearned revenue	153,175	83,500
Current portion of obligation under capital leases	25,261	22,990
Promissory Note	422,262	422,262
	<hr/> 1,323,152	<hr/> 1,274,539
OBLIGATION UNDER CAPITAL LEASES	34,549	48,053
FUTURE INCOME TAXES	76,817	82,136
	<hr/> 1,434,518	<hr/> 1,404,728
CAPITAL DEFICIENCY		
Capital stock	4,134,539	4,134,539
Deficit	(4,179,179)	(4,270,125)
	<hr/> (44,640)	<hr/> (135,586)
	<hr/> \$ 1,389,878	<hr/> \$ 1,269,142

PE-TECH INC.

Consolidated Statements of Income and Deficit

Unaudited - Prepared by Management

	Three Month Period Ended May 31		Six Month Period Ended May 31	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
REVENUE				
Professional income	\$ 1,021,231	\$ 377,813	\$ 1,917,285	\$ 897,216
Other income	2,926	11,076	2,825	13,652
	1,024,157	388,889	1,920,110	910,868
COST OF GOODS SOLD	458,172	269,776	817,478	487,939
GROSS PROFIT	565,985	119,113	1,102,632	422,929
OPERATING EXPENSES				
Wages, employee benefits, and contract employees	221,147	268,347	456,947	501,304
Office	83,904	104,766	170,613	179,530
Travel & Promotion	59,076	51,615	88,463	87,689
Professional fees	30,996	80,417	57,144	142,799
Consultants	61,329	29,001	112,793	49,484
Depreciation & Amortization	32,818	21,173	62,766	40,432
Vehicle	14,898	23,964	29,954	41,972
Bad debt expense (debt recovery)	-	-	-	-
Repairs & Maintenance	1,892	22,461	11,422	56,277
Interest & Bank Charges	12,778	(5,230)	26,908	3,187
Research and development (net of investment tax credit & government assistance)	-	-	-	-
	518,838	596,514	1,017,010	1,102,674
INCOME (LOSS) FROM OPERATIONS	47,147	(477,401)	85,622	(679,745)
GAIN (LOSS) ON DISPOSAL OF CAPITAL ASSETS	-	-	-	-
IMPAIRMENT OF GOODWILL	-	-	-	-
IMPAIRMENT OF INTANGIBLE ASSETS	-	-	-	-
GAIN ON ISSUANCE OF SHARES BY SUBSIDIARY	-	(99,176)	-	-
(LOSS) INCOME BEFORE INCOME TAXES	47,147	(576,577)	85,622	(679,745)
FUTURE INCOME TAX RECOVERY	(2,660)	-	(5,319)	-
NET (LOSS) INCOME	49,807	(576,577)	90,941	(679,745)
DEFICIT, BEGINNING OF PERIOD	(4,228,986)	(1,078,371)	(4,270,120)	(975,203)
DEFICIT, END OF PERIOD	\$(4,179,179)	\$(1,654,948)	\$(4,179,179)	\$(1,654,948)
EARNINGS (LOSS) PER COMMON SHARE				
Basic	\$ 0.0035	\$ (0.0267)	\$ 0.0064	\$ (0.0481)
Diluted	\$ 0.0035	\$ (0.0267)	\$ 0.0064	\$ (0.0481)

PE-TECH INC.

Consolidated Statements of Cash Flow

Unaudited - Prepared by Management

	Three Month Period Ended May 31		Six Month Period Ended May 31	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES				
OPERATING				
Net earnings (loss)	\$ 49,807	\$ (576,577)	\$ 90,941	\$ (679,745)
Items not affecting cash				
Depreciation and amortization	32,818	21,173	62,766	40,432
Loss (gain) on sale of capital assets	-	-	-	-
Gain on issuance of shares by subsidiary	-	-	-	(99,176)
Impairment of goodwill	-	-	-	-
	82,625	(555,404)	153,707	(738,489)
Changes in non-cash working capital	(182,754)	200,840	(29,279)	(105,257)
	(100,129)	(354,564)	182,986	(843,746)
FINANCING				
Proceeds from notes payable	-	(235,380)	-	-
Proceeds on shares issued to non-controlling interest shareholders of Prism Production Technologies Inc.	-	1,915,304	-	1,915,304
Proceeds on shares issued to non-controlling interest shareholders of Wavefront Environmental Tech Inc.	-	(1,445)	-	-
Issuance of capital stock	-	-	-	138,845
Repayment of obligation under capital leases	(5,724)	1,890	(11,233)	(3,130)
	(5,724)	1,680,369	(11,233)	2,051,019
INVESTING				
Purchase of capital assets	(19,750)	(109,181)	(42,047)	(131,048)
Proceeds on disposal of capital assets	-	-	-	-
Patents	(593)	(9,853)	(1,061)	(10,145)
	(20,342)	(119,034)	(43,107)	(141,193)
NET CASH INFLOW	(126,195)	1,206,771	128,646	1,066,080
BANK INDEBTEDNESS, BEGINNING OF PERIOD	242,144	-	(12,697)	(238,773)
CASH, END OF PERIOD	\$ 115,949	\$ 1,206,771	\$ 115,949	\$ 827,307
COMPRISED OF:				
Cash	\$ 215,937	\$ 990,893	\$ 215,937	\$ 990,893
Bank indebtedness	(99,988)	215,878	(99,988)	(163,586)
	\$ 115,949	\$ 1,206,771	\$ 115,949	\$ 827,307
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION				
Amount of interest paid during the period	\$ 17,983	\$ (20,439)	\$ 21,421	\$ 2,623

PE-TECH INC.

Note to the Consolidated Financial Statements

For the Second Quarter Ended May 31, 2003 and 2002

1. DESCRIPTION OF BUSINESS

PE-TECH Inc. is a private company incorporated under the laws of Ontario and is extra-provincially registered in Alberta. Its principal business activity is the improvement of oil recovery using patented flow enhancement technology.

The consolidated financial statements include the accounts of the Company and its subsidiaries, Wavefront Environmental Technologies Inc. (2003: 100 percent; 2002: 84.25 percent); Prism Production Technologies Inc. (2003: 100 percent; 2001: 70.25 percent); South Mountain Resources Inc. (2003: 100 percent; 2002: 100 percent); and Wavefront Energy and Environmental Services USA Inc. (100 percent). Wavefront Environmental Technologies Inc. and Prism Production Technologies Inc. were incorporated on June 8, 2000. As such, the comparative figures in these consolidated financial statements reflect the operations of these two subsidiaries for the five months ending November 30, 2000. South Mountain Resources Inc. was incorporated on August 29, 2001, and had no operations in the reporting period. Wavefront Energy and Environmental Services USA Inc. was incorporated on March 21, 2002 and had no operations in the reporting period.

2. BASIS OF PRESENTATION

The interim consolidated financial statements should be read in conjunction with the financial statements for the Company's most recently completed fiscal year ended November 30, 2002. These interim consolidated financial statements do not include all the disclosures required in the annual financial statements but rather are prepared in accordance with recommendations for interim financial statements in conformity with Canadian generally accepted financial statements.

These interim consolidated financial statements follow the same accounting policies and methods, other than as set out in Note 3 to these interim consolidated financial statements, of their application as set out in PE-TECH Inc.'s most recent annual consolidated financial statements for the year ended November 30, 2002.

3. CONTINUATION OF BUSINESS

The consolidated financial statements have been prepared on the basis of accounting principle applicable to a going concern; that is, assets can be realized and liabilities discharged in the normal course of business.

The Company has recently experienced significant losses as a result of operations and is in a significant working capital deficiency. The Company's continued existence is dependent on its ability to achieve and maintain operational profitability and to raise additional capital in order to finance future operations.

If the going concern assumption was not appropriate for these consolidated financial statements, then adjustments would be necessary in the carrying values of assets and liabilities, the reported net income or loss, and the consolidated balance sheet classifications used.

PE-TECH INC.

Note to the Consolidated Financial Statements

For the Second Quarter Ended May 31, 2003 and 2002

4. REVENUES

Revenue is generally recognized when products or services have been delivered to and accepted by third party customers. Under certain contracts, revenue is recognized at the time of shipment. In addition, under certain sales and service contracts a provision for potential warranty expense is provided at the time of sale, based on warranty terms and prior claims experience. Amounts received in advance of products or services being provided are recorded as unearned revenue when received.

The majority of the Company's business is from its energy sector downhole monitoring business unit (Prism Production Technologies Inc.), which are **seasonal** in nature with the highest activity in the winter months (first and second quarters) and the lowest activity during spring break-up (third quarter) due to road weight restitutions and reduced accessibility to remote oil well site areas.

5. ACQUISITION OF MINORITY INTEREST OF SUBSIDIARIES

On May 31, 2002, the Company acquired the remaining outstanding minority interest positions in its subsidiaries (Prism Production Technologies Inc. and Wavefront Environmental Technologies Inc.) in exchange for 3,064,390 Class A common shares and has accounted for the acquisition using the purchase method. The share transaction has been recorded at the estimated fair value of the Company's shares, which was determined to be the unit price of \$0.50 per share received during the Company's offering memorandum financing dated March 12, 2002, for aggregate proceeds of \$2,081,983. The Company has performed a valuation to allocate the purchase price based on the fair value of the tangible and intangible assets acquired and has determined the full purchase price allocation at the date of acquisition to be as follows:

Assets acquired	
Pressure pulse technology licenses	\$ 378,452
Computer software	41,678
Future income tax liability	(168,052)
Goodwill	1,280,117
<hr/>	
Purchase price	\$ 1,532,195

The reporting units identified are the Company's subsidiaries.

No Goodwill amortization was recorded during fiscal 2002; however, goodwill was tested for impairment annually and was tested by the Company as at November 30, 2002. The Company completed the impairment test by applying the prescribed method of comparing the fair value of its reporting units, and has determined that there is goodwill impairment of \$1,280,117, which was charged directly to earnings at November 30, 2002. In addition, the balance of acquired intangible assets was impaired and appropriately written down to a net book value of \$205,340 at November 30, 2002. Consistent with current industry-specific valuation methods and recommendations for assessment from the CICA Handbook Section 3062, the Company used a combination of the discounted cash flow model and the market comparable approach for determining the fair value of its reporting units.

PE-TECH INC.

Note to the Consolidated Financial Statements

For the Second Quarter Ended May 31, 2003 and 2002

6. CHANGE IN ACCOUNTING POLICY

Cost of Goods Sold

The Company has changed the calculation of its cost of goods sold from throughput costing to absorption costing. The change means that the cost of goods sold will, from November 30, 2002, also include direct labour and direct project costs. For comparative purposes the following information breaks down the Company's costs of goods sold:

	May 31, 2003	May 31, 2002
Direct material	\$ 503,691	\$ 487,939
Direct labour	178,637	-
Direct project costs	\$135,150	-
	<hr/>	
	\$ 817,478	\$ 487,939

The new accounting method is not applied retroactively to the comparative periods, as the necessary financial data is not reasonably determinable.

Inventory

The Company has changed the calculation of its inventory from the inclusion of only finished goods to also include direct labour and an allocation of direct manufacturing overhead in its work in progress. For comparative purposes the following information breaks down the Company's costs of goods sold:

	May 31, 2003	May 31, 2002
Inventory	\$ 61,785	\$ 107,991
Work-in-progress	129,411	-
	<hr/>	
	\$ 191,196	\$ 107,991

The new accounting method is not applied retroactively to the comparative periods as the necessary financial data is not reasonably determinable.

PE-TECH INC.

Note to the Consolidated Financial Statements

For the Second Quarter Ended May 31, 2003 and 2002

7. CAPITAL STOCK

Authorized

Unlimited Class A non-cumulative, voting, common shares

Unlimited Class B non-cumulative, non-voting, common shares

	2003		2002	
	Number	Stated Capital	Number	Stated Capital
Class A common shares				
Balance, beginning of period	14,140,433	\$ 4,134,539	7,834,700	\$ 374,952
Shares issued from stock option exercise	-	-	845,000	409
Shares issued for cash	-	-	246,000	123,000
Share consolidation	-	-	(2,059,777)	-
	14,140,433	\$ 4,134,539	6,865,923	498,361
Shares issued for settlement of convertible promissory note	-	-	480,175	240,088
Conversion of Class B common shares to Class A common shares	-	-	46,154	22,000
Shares issued for cash	-	-	3,683,791	1,841,895
Shares issued to acquire non-controlling interest in subsidiaries	-	-	3,064,390	1,532,195
Balance, end of year	14,140,433	\$ 4,134,539	14,140,433	4,134,539
Class B common shares				
Balance, beginning of year	-	-	60,000	22,000
Shares issued for cash	-	-	-	-
Share consolidation	-	-	(13,846)	-
	14,140,433	\$ 4,134,539	46,154	22,000
Conversion of Class B common shares to Class A common shares	-	-	(46,154)	(22,000)
Balance, end of year	-	-	-	-
Total outstanding	14,140,433	\$ 4,134,539	14,140,433	\$ 4,134,539

PE-TECH INC.

Note to the Consolidated Financial Statements

For the Second Quarter Ended May 31, 2003 and 2002

7. CAPITAL STOCK continued

Stock-based compensation plan

The Company maintains an employee, consultant, officer and director stock option plan, under which total options may be granted by the Board of Directors for up to 10 percent of the total of common shares outstanding, on a non-diluted basis, immediately prior to the issuance of the options. The exercise price of each option shall be determined by the Board of Directors on the date of grant. The Board of Directors set the exercise price for each option granted, which may not exceed 10 years, and determines the period during which options granted shall vest. As at the period ended May 31, 2003, there were no options outstanding.

The Company has 2,081,983 share purchase warrants outstanding as at May 31, 2003 and expire as follows:

April 3, 2003	480,087
April 18, 2003	1,135,392
May 13, 2003	466,504
<hr/>	
	2,081,983

In connection with the reverse take-over with New Media Systems Inc. (note 12) the Company together with New Media has requested Exchange approval to extend the share purchase warrant for three months from the closing date of the reverse take-over. Such approval was provided subsequent to the reporting period.

8. EARNINGS (LOSS) PER COMMON SHARE

In calculating earnings per share under the treasury stock method, the numerator remains unchanged from the basic earnings per share calculation as the assumed exercise of the Company's stock options does not result in an adjustment to income. The reconciliation of the denominator in calculating diluted earnings per share for the three-month period ended May 31, 2003 14,140,433 (2002: 7,994,717).

9. SEGEMENTED INFORMATION

The Company managed using two operating segments, which have been determined based on the nature of products produced and services provide: Wavefront Environmental Technologies Inc. (Wavefront) and Prism Production Technologies Inc. (Prism). Wavefront provides a unique solution for environmental groundwater remediation to increase the rate of removal of potentially harmful subsurface substances known in the industry as non-aqueous phase liquids (NAPLs). Prism provides downhole monitoring and improved oil recovery technologies for the monitoring, analysis, stimulation and production optimization of reservoir to the global oil and gas industry.

PE-TECH INC.

Note to the Consolidated Financial Statements

For the Second Quarter Ended May 31, 2003 and 2002

9. SEGEMENTED INFORMATION continued

The accounting policies of the reportable segments are the same as those described in Note 2.

Period ended May 31, 2003	Revenue	Segmented Earnings (Loss)	Depreciation and Amortization	Capital Expenditure	Assets
Prism	\$ 1,874,441	\$ 235,810	\$ 53,180	\$ 43,107	\$ 1,179,418
Wavefront	45,669	(144,867)	9,586	-	225,564
	\$ 1,920,110	\$ 90,943	\$ 62,766	\$ 43,107	\$ 1,404,983

Period ended May 31, 2002	Revenue	Segmented Loss	Depreciation and Amortization	Capital Expenditure	Assets
Prism	\$ 860,706	\$ (585,916)	\$ 34,069	\$ 119,034	\$ 3,250,867
Wavefront	50,162	(93,829)	6,363	-	117,440
	\$ 521,979	\$ (679,745)	\$ 40,432	\$ 119,034	\$ 747,275

During the three-month reporting period ended May 31, 2003, the Company recorded revenue from four customers of \$1,142,932, \$334,126, \$182,864 and \$174,237, which represents 60%, 17%, 10% and 9% respectively. In 2002, the Company recorded revenue from four customers of \$243,935, \$239,994, \$213,590 and \$68,660, which represents 29%, 28%, 25% and 8% respectively.

The Company generated revenues from products sold and services provided within Canada of \$1,920,110, and to the United States of \$43,120.

10. RELATED PARTY TRANSACTIONS

During the six-month reporting period ended May 31, 2003, the Company has incurred charges for wages, employee benefits, and contract employees totaling \$75,000 (2002: \$92,696), which were paid to shareholders and a corporation controlled by a shareholder. In the six-month period ended May 31, 2003, nil (2002: \$14,065.19) is included in accounts payable and accrued liabilities.

During the six-month reporting period ended May 31, 2003, the Company incurred charges for consulting and other fees totaling \$21,400 (2002: \$32,473), which were paid to shareholders and corporations controlled by shareholders. In the six-month period ended May 31, 2003, nil (2002: \$3,566) is included in accounts payable and accrued liabilities.

PE-TECH INC.

Note to the Consolidated Financial Statements

For the Second Quarter Ended May 31, 2003 and 2002

10. RELATED PARTY TRANSACTIONS Continued

During the six-month reporting period ended May 31, 2003, the Company has accrued interest of \$16,094 relating to promissory notes held by shareholders and a corporation controlled by a shareholder of the Company. The principal amount of the funds owed by the Company to the shareholders amount to \$422,216. Interest in the amount of \$17,596 was paid out to a shareholder and a corporation controlled by a shareholder of the Company.

11. SUBSEQUENT EVENTS

Reverse takeover with Wavefront Energy and Environmental Services Inc. (formerly New Media Systems Inc.)

Effective September 30, 2002, Wavefront Energy and Environmental Services Inc. ("Wavefront"), a public company listed on the TSX Venture Exchange (the "TSX"), received TSX acceptance to its acquisition of PE-TECH Inc. (the "Acquisition"). Wavefront had obtained shareholder approval at its Extraordinary General Meeting (the "EGM") held on September 17, 2002, to among other matters, a reverse takeover and acquisition by Wavefront of all of the issued and outstanding shares of PE-TECH Inc., and related transactions including consolidation of Wavefront's share capital, continuation of Wavefront under the *Canada Business Corporations Act* and change of name. Accordingly, effective on September 30, 2003, Wavefront's share capital was consolidated on the basis of 5 pre-consolidation shares for each 4 post-consolidation shares, Wavefront was continued from a British Columbia company into the federal jurisdiction of Canada under the *Canada Business Corporations Act* under the new name "Wavefront Energy and Environmental Services Inc." ("Wavefront") with an authorized capital of an unlimited number of common shares. In addition, effective September 30, 2003, 624,225 pre-consolidation escrow shares were cancelled. The term "Post Consolidation" refers to the current status of the share capital of Wavefront.

Terms of the Acquisition

In order to complete the Acquisition, on September 30, 2003 Wavefront issued 14,140,432 post-consolidation common shares to the shareholders of PE-TECH Inc. and 2,081,932 warrants to purchase post-consolidation common shares at a price of \$1.00 per share, on or before December 30, 2003. Of the 14,140,432 consideration shares, 8,351,486 common shares are subject to escrow in accordance with the terms of a TSX Venture Exchange Value Escrow Agreement. In addition, 1,326,734 post-consolidation common shares of Wavefront held by certain continuing Principals of Wavefront will be held in escrow pursuant to the terms of a TSX Venture Exchange Value Escrow Agreement.

PE-TECH INC.

Note to the Consolidated Financial Statements

For the First Quarter Ended February 28, 2003 and 2002

11. SUBSEQUENT EVENTS continued

Stock Option Plan and Grant of Options

Wavefront has also obtained TSX acceptance to their Stock Option Plan, which plan was approved by Wavefront's shareholders at the EGM held on September 17, 2002. Wavefront has implemented a fixed plan whereby it has reserved 3,641,162 post-consolidation shares for issuance under the Plan. Wavefront has granted incentive stock options to its directors, officers and employees to purchase an aggregate of 1,310,000 post-consolidation shares at a price of \$0.50 per share on or before September 30, 2008.

Private Placement of Units

Wavefront is also closed its non-brokered private placement for a total of 2,206,000 units (the "Private Placement Units"), each unit comprised of one post-consolidation common shares and one-half of a non-transferable share purchase warrant, in the capital stock of Wavefront at \$0.50 per unit to net the treasury an aggregate of \$1,103,000 on September 30, 2003. Each one whole share purchase warrant entitles the investors to purchase one additional common share of Wavefront for a period of 12 months from the closing at \$1.00 per share.

In accordance with securities legislation currently in effect, the Shares, the Warrants and the Warrant Shares will be subject to "hold period" of four months plus one day expiring on expiring on January 31, 2004.

Value Escrow Agreement and Seed Share Restrictions

A total of 9,678,220 Post Consolidation shares held by insiders of Wavefront and its subsidiaries are subject to TSX Form 5D Value Escrow Agreements and will be released on the following schedule:

Release Dates	Percentage of Total Escrowed Securities to be Released	Total Number of Escrowed Securities to be Released
date of Exchange Bulletin (September 30, 2003)	1/10 of escrowed securities	967,822
date 6 months following Exchange Bulletin (March 30, 2004)	1/6 of remaining escrow securities	1,451,733
date 12 months following Exchange Bulletin (September 30, 2004)	1/5 of remaining escrow securities	1,451,733
date 18 months following Exchange Bulletin (March 30, 2005)	1/4 of remaining escrow securities	1,451,733
date 24 months following Exchange Bulletin (September 30, 2005)	1/3 of remaining escrow securities	1,451,733

PE-TECH INC.

Note to the Consolidated Financial Statements

For the First Quarter Ended February 28, 2003 and 2002

11. SUBSEQUENT EVENTS continued

date 30 months following Exchange Bulletin (March 30, 2006)	1/2 of remaining escrow securities	1,451,733
date 36 months following Exchange Bulletin (September 30, 2006)	all of remaining escrow securities	1,451,733
TOTAL	100%	9,678,220

In addition to the 9,678,220 shares subject to escrow restrictions on the terms set out above, pursuant to the policies of the TSX, an additional 323,078 shares of Wavefront issued to three prior seed shareholders of PE-TECH Inc. were issued subject to seed share matrix resale restrictions with hold periods and legending requirements corresponding to the timed escrow release dates (i.e. 10% released from resale restrictions on September 30, 2003 with 15% being released from resale restrictions every 6 months thereafter).

Directors and Officers of Wavefront

Effective September 30, 2003 there have also been changes in the officers of Wavefront. D. Brad Paterson has resigned and President and Brett C. Davidson has been appointed President and Chief Executive Officer. D. Brad Paterson has been appointed Secretary, Treasurer, and Chief Financial Officer.