

Unaudited Consolidated Financial Statements of

WAVEFRONT ENERGY AND ENVIRONMENTAL SERVICES INC.

For the First Quarter ended November 30, 2004 and November 30, 2003

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WAVEFRONT ENERGY AND ENVIRONMENTAL SERVICES INC.
(formerly New Media Systems Inc.)
Consolidated Balance Sheets

	As At 30-Nov-04 (Unaudited)	As At 31-Aug-04 (Restated - Note 4)
ASSETS		
CURRENT		
Cash	\$ 37,041	\$ 45,973
Accounts receivable	543,969	568,334
Prepaid expenses	7,748	4,835
Inventory	358,325	259,555
	947,083	878,697
CAPITAL ASSETS	625,920	622,209
INTANGIBLE ASSETS	42,891	39,929
DEPOSITS	9,965	11,007
	\$ 1,625,859	\$ 1,551,842
LIABILITIES		
CURRENT		
Bank indebtedness	\$ 250,202	\$ 182,591
Accounts payable and accrued liabilities	994,423	766,484
Unearned revenue	283,487	214,198
Notes payable (Note 6)	75,024	100,333
Current portion of obligation under capital leases	13,849	13,979
	1,616,985	1,277,585
OBLIGATION UNDER CAPITAL LEASES DUE TO SHAREHOLDERS (Note 7)	10,987 34,189	14,481 529,704
	1,662,161	1,821,770
CAPITAL DEFICIENCY		
Capital stock (Note 9)	5,815,527	5,220,000
Contributed Surplus (Notes 4 and 9)	112,191	89,878
Deficit (Note 4)	(5,964,020)	(5,579,806)
	(36,302)	(269,928)
	\$ 1,625,859	\$ 1,551,842

APPROVED BY THE BOARD

"Brett Davidson" (signed) Director

"D. Brad Paterson" (signed) Director

WAVEFRONT ENERGY AND ENVIRONMENTAL SERVICES INC.
(formerly New Media Systems Inc.)
Consolidated Statements of Loss and Deficit (Unaudited)
Three month period ended November 30, 2004

	<u>2004</u>	<u>2003</u> (Restated - Note 4)
REVENUE		
Sales	\$ 309,632	\$ 60,051
Other income	12,479	8,003
	322,111	68,054
COST OF GOODS SOLD	228,631	35,965
GROSS PROFIT	93,480	32,089
OPERATING EXPENSES		
Wages, employee benefits, and contract employees	195,260	170,727
Office	70,934	73,572
Research and development	53,611	26,144
Travel and promotion	32,793	23,464
Professional fees	24,758	100,138
Depreciation and amortization	24,282	30,786
Interest expense	23,390	12,559
Vehicle	21,287	13,747
Listing and public company fees	21,232	19,850
Consultants	20,170	30,055
Repairs and maintenance	2,523	13,440
Miscellaneous	54	89
Research and development tax recovery	(12,385)	-
	477,909	514,571
LOSS FROM OPERATIONS	(384,429)	(482,482)
LOSS ON DISPOSAL OF CAPITAL ASSETS	-	(490)
FOREIGN EXCHANGE LOSS	215	(5,177)
LOSS BEFORE INCOME TAXES	(384,214)	(488,149)
FUTURE INCOME TAX RECOVERY (Note 9)	-	1,495
NET LOSS	(384,214)	(486,654)
DEFICIT, BEGINNING OF PERIOD (as previously reported)	(5,500,602)	(4,683,605)
Adjustment for retroactive adoption of stock based compensation (Note 4)	(79,204)	(11,033)
DEFICIT, BEGINNING OF PERIOD (as restated)	(5,579,806)	(4,694,638)
Acquisition of PE-TECH Inc. (Note 5)	-	757,286
DEFICIT, END OF PERIOD	\$ (5,964,020)	\$ (4,424,006)
LOSS PER COMMON SHARE		
Basic and Diluted	\$ (0.02)	\$ (0.03)

WAVEFRONT ENERGY AND ENVIRONMENTAL SERVICES INC.
(formerly New Media Systems Inc.)
Consolidated Statements of Cash Flow (Unaudited)
Three month period ended November 30, 2004

	<u>2004</u>	<u>2003</u>
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES		
OPERATING		
Net loss	\$ (384,214)	\$ (486,654)
Items not affecting cash		
Depreciation and amortization	24,282	30,786
Loss on disposal of capital assets	-	490
Stock based compensation (Note 9)	22,313	1,281
Future income tax recovery	-	(1,495)
	(337,619)	(455,592)
Changes in non-cash working capital	235,162	767,733
	(102,457)	312,855
FINANCING		
Proceeds from (repayment of) bank indebtedness	67,611	(357)
Regulator fees related to shares for debt	(321)	-
Proceeds from notes payable	75,024	-
Repayment of obligation under capital leases	(3,624)	(6,184)
	138,690	(6,541)
INVESTING		
Purchase of capital assets	(45,165)	(42,915)
Proceeds on disposal of capital assets	-	2,300
Intangible costs	-	(10,812)
	(45,165)	(51,427)
NET CASH (OUTFLOW) INFLOW	(8,932)	254,887
CASH, BEGINNING OF PERIOD	45,973	18,220
CASH, END OF PERIOD	\$ 37,041	\$ 273,107
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Amount of interest paid during the period	\$ 5,357	\$ 3,707
During the period share capital in the amount of \$595,848 was issued in the settlement of \$495,515 in amounts "due to shareholders" and \$100,333 in "notes payable" (Note 9).		

WAVEFRONT ENERGY AND ENVIRONMENTAL SERVICES INC.

(formerly New Media Systems Inc.)

Notes to the Consolidated Financial Statements (Unaudited)

Three Month Period Ended November 30, 2004

1. DESCRIPTION OF BUSINESS

Wavefront Energy and Environmental Services Inc. (the "Corporation" or "Wavefront Energy") is incorporated under the Canada Business Corporations Act. The Corporation's principal business activities are the improvement of oil recovery, acidization, diversion, oilfield disposal methodologies, and environmental groundwater remediation using its patented fluid flow pressure pulsing technology. During the previous fiscal year New Media Systems Inc. changed its name to Wavefront Energy and Environmental Services Inc.

Effective September 30, 2003, the Corporation acquired PE-TECH Inc. ("PE-TECH" or the "Acquisition"). The Acquisition constituted a reverse takeover under TSX Venture Exchange policies (Note 5). As a result of the reverse takeover, the PE-TECH group of companies adopted an August 31 year-end, consistent with the Corporation.

These consolidated financial statements include the accounts of the Corporation and its wholly owned subsidiaries for the period ended November 30, 2004.

2. BASIS OF PRESENTATION

These interim consolidated financial statements should be read in conjunction with the financial statements of the Corporation for the year ended August 31, 2004. These interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles, using the same accounting policies as set out in the financial statements of the Corporation for the year ended August 31, 2004, except as reported in Note 4. The interim consolidated financial statements have not been audited or reviewed by the Corporation's auditors.

3. CONTINUATION OF BUSINESS

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

The Corporation has experienced significant losses as a result of operations and is in a significant working capital deficiency. The Corporation's continued existence is dependent on its ability to achieve 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 loss, and the consolidated balance sheet classifications used.

4. CHANGE IN ACCOUNTING POLICY

Prior to September 1, 2004, the Corporation applied the fair value based method of accounting prescribed by Section 3870 of the Handbook of the Canadian Institute of Chartered Accountants (the "CICA"), "Stock-Based Compensation and Other Stock-Based Payments", applied the settlement method of accounting to employee stock options. Under the settlement method, any consideration paid by employees on the exercise of stock options or purchase of stock is credited to share capital and compensation expense was recognized.

The revised Section 3870 requires that a fair value method of accounting be applied to all stock-based compensation payments to both employees and non-employees. Under the fair value based method,

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Notes to the Consolidated Financial Statements (Unaudited)

Three Month Period Ended November 30, 2004

compensation cost is measured at fair value at the date of grant and is expensed over the award's vesting period. In accordance with the revised provisions of Section 3870, the Corporation has retro-

4. CHANGE IN ACCOUNTING POLICY (continued)

actively applied the fair value method of accounting for employee stock-based compensation for awards granted on or after September 1, 2002, and has restated prior periods. An amount of \$11,033 has been recorded as an adjustment to the opening deficit as at September 1, 2004 and an equal amount recorded as contributed surplus on the restatement.

5. ACQUISITION OF PE-TECH INC.

Effective September 30, 2003, the Corporation received TSX Venture Exchange acceptance of its Acquisition of PE-TECH, a reverse take-over and acquisition by Wavefront Energy of all the issued and outstanding common shares of PE-TECH.

In consideration for the Acquisition of the PE-TECH issued and outstanding common shares, the Corporation issued 14,140,432 Wavefront Energy common shares to the shareholders of PE-TECH, and in consideration for the PE-TECH issued and outstanding share purchase warrants, Wavefront Energy issued 2,081,983 Wavefront Energy share purchase warrants, each share purchase warrant exercisable at a price of \$1 per share, on or before December 31, 2003. All 2,081,983 share purchase warrants expired and none were exercised.

In this transaction, Wavefront Energy, a non-operating publicly listed enterprise, was acquired for accounting purposes. Wavefront Energy did not meet the definition of a business under generally accepted accounting principles, as such, the reverse takeover transaction did not constitute a business combination and is instead considered to be a capital transaction. Canadian generally accepted accounting principles requires that any net liability of the public enterprise (Wavefront Energy) be treated as a charge to the retained earnings or deficit of the consolidated enterprise.

As at September 30, 2003, the financial position of Wavefront Energy resulted in a charge to the deficit of the consolidated enterprise of \$757,286, as follows:

	As At September 30, 2003
Current assets (no cash)	\$ 1,059,153
Total Assets	1,059,153
Current liabilities	241,643
Due to a shareholder	60,224
Total liabilities	301,867
Shareholders equity	757,286
	\$ 1,059,153

6. NOTES PAYABLE

Notes payable represents an advance of funds from a director of the Corporation. The advance is unsecured, with no specified interest or repayment terms at this time.

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Notes to the Consolidated Financial Statements (Unaudited)

Three Month Period Ended November 30, 2004

7. DUE TO SHAREHOLDERS

In connection with the Acquisition, certain directors and shareholders of the Corporation and a company controlled by a director of the Corporation entered into a Debt Repayment Agreement. Under the terms of the Debt Repayment Agreement, the creditors agreed to postpone their ability to demand repayment of the notes, totaling 34,189 (2003 - \$482,486) and certain accounts payable, totaling nil (2003 - \$47,218) until September 30, 2004, after which principal repayment is restricted to twenty percent (20%) of consolidated cash flows from operations.

Interest expense recorded in the period totaled \$12,938 (2003 - \$8,851). Accrued interest payable at November 30, 2004 is \$81,990 (2003 - \$33,797) and is included in accounts payable and accrued liabilities.

8. RELATED PARTY TRANSACTIONS

During the three month period ended November 30, 2004, the Corporation incurred charges for wages, employee benefits, contract employees, and consultants totaling \$72,986 (2003 - \$68,920) that were paid to directors, significant shareholders, or a corporation controlled by a shareholder of the Corporation. As at November 30, 2004, no amounts (2003 - nil) were included in accounts payable and accrued liabilities. These transactions are in the normal course of business and took place at normal commercial rates and terms.

9. SHARE CAPITAL

Capital stock

The Corporation's authorized and issued share capital is as follows:

Authorized		
unlimited common shares without par value		
	<u>Number</u>	<u>Stated Capital</u>
Issued		
Balance, August 31, 2004	23,562,421	\$ 5,175,287
Shares for Debt (a)	2,090,694	\$ 595,527
Balance, November 30, 2004	25,653,115	5,770,814
Warrants		
Balance, August 31, 2004	2,528,089	44,713
Balance, November 30, 2004	2,528,089	44,713
		\$ 5,815,527

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Notes to the Consolidated Financial Statements (Unaudited)

Three Month Period Ended November 30, 2004

9. SHARE CAPITAL (continued)***Warrants***

The Corporation's issued share purchase warrants is as follows:

	<u>Number of Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Expiry Date</u>
Balance, August 31, 2004	2,528,089	\$0.54	May '05 - May '06
	-		
Balance, November 30, 2004	2,528,089		

Stock Options

The Corporation's issued stock options is as follows:

	<u>Number of Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Expiry Date</u>
Balance, August 31, 2004	1,547,955	\$ 0.48	Sep '08 - Apr '09
Granted (b)	470,000	\$ 0.45	Oct '09
Cancelled	(40,000)	\$ 0.55	Nov '08
Balance, November 30, 2004	1,977,955	\$ 0.47	

Exercise Price	<u>Options Outstanding</u>		<u>Options Exercisable</u>	
	Number Outstanding	Weighted average remaining contractual life	Number Exercisable	Weighted average remaining contractual life
\$0.44	570,455	4.4	195,833	4.4
\$0.45	470,000	4.8	-	4.8
\$0.50	807,500	3.9	421,667	3.9
\$0.55	130,000	4.0	86,667	4.0
	1,977,955	4.1	704,167	4.1

- (a) During the quarter the Corporation completed a shares for debt transaction. This transaction settled \$595,848 in amounts "Due to shareholders" and "Notes payable" for 2,090,694 shares at a price of \$0.285 per share. Of the total liabilities settled, \$458,430 was amounts owing to related parties.
- (b) During the period 470,000 options were issued to insiders of the Corporation. All Stock Options issued under the plan vest, at a minimum, equally over an eighteen (18) month period.

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Three Month Period Ended November 30, 2004

9. SHARE CAPITAL (continued)

Escrow Shares

In connection with the Acquisition of PE-TECH, effective September 30, 2003, 499,380 escrow shares (624,225 pre-consolidation escrow shares) were cancelled for nominal value and 8,351,486 escrow shares were issued in connection with the PE-TECH acquisition. The balance of shares held in escrow as at November 30, 2004 was 5,806,932 (2003 – 8,351,486).

Stock-based Compensation

The fair value for the compensation costs of stock options issued to both employees and non-employees were calculated using the Black-Scholes option pricing model resulting in an additional charge to wage and to consultant expense with a corresponding increase in contributed surplus.

During the quarter \$21,710 in compensation expense was recorded relating to employee stock options outstanding. The Corporation also retroactively recorded \$79,204 for compensation expense relating to employee stock options outstanding for since September 1, 2002.

The fair value of each set of options granted by the Corporation was estimated using the Black – Scholes option pricing model assuming the following:

	Ranging from	
Dividend Yield	-	-
Risk-free Rate	3.52%	3.88%
Average Life	5 yrs	5 yrs
Volatility Rate	59.41%	68.85%
Marketability Discount	60%	60%
Weighted Fair Value of Options Granted	\$0.11	\$0.07

The amounts computed according to the Black-Scholes pricing model may not be indicative of the actual values realized upon the exercise of the options by the holders.

10. LOSS PER SHARE

The Corporation uses the treasury stock method to calculate diluted 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 Corporation's share purchase warrants and stock options do not result in an adjustment to income. The denominator also remains unchanged as all dilutive securities, the outstanding share purchase warrants and stock options, are out-of-the-money and anti-dilutive. The weighted average number of common shares outstanding was 23,608,370 (2003 – 18,328,850).

WAVEFRONT ENERGY AND ENVIRONMENTAL SERVICES INC.

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Notes to the Consolidated Financial Statements (Unaudited)

Three Month Period Ended November 30, 2004

11. SEGMENTED INFORMATION

The Corporation is managed using two operating segments, which have been determined based on the industry sectors serviced: energy sector and environmental sector.

The energy sector provides downhole monitoring for the analysis, stimulation, and production optimization of reservoirs, and pressure pulsing technology for the improvement of oil recovery, acidization, diversion and oilfield disposal methodologies to the global oil and gas industry. The environmental sector provides pressure pulsing technology, 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).

Period ended			Depreciation		
November 30, 2004		Segment	and	Capital	
(3 months)	Revenue	Loss	Amortization	Expenditures	Assets
Energy	\$ 285,386	\$ 377,569	\$ 14,013	\$ -	\$ 1,290,071
Environmental	<u>36,725</u>	<u>6,860</u>	<u>10,269</u>	<u>45,165</u>	<u>381,175</u>
	\$ 322,111	384,429	\$ 24,282	\$ 45,165	\$ 1,671,246
Period ended					
November 30, 2003					
(3 months)					
Energy	\$ 60,098	\$ 452,233	\$ 22,384	\$ 42,965	\$ 1,183,523
Environmental	<u>7,956</u>	<u>30,249</u>	<u>8,402</u>	<u>10,762</u>	<u>226,333</u>
	\$ 68,054	\$ 482,482	\$ 30,786	\$ 53,727	\$ 1,409,856

The accounting policies of the reportable segments are the same as those described in the financial statements of the Corporation for the year ended August 31, 2004.

In the period ended November 30, 2004, the Corporation recorded revenue from four customers. Sales from the top two customers amounted to \$274,701 and \$29,232, which represent 85% and 9% of total revenue respectively. In 2003, the Corporation recorded revenue from two customers in the amount of \$45,601 and \$12,450, which represents 67%, and 18% of total revenue respectively.

The Corporation has generated revenue from products sold and services provided within Canada of \$285,386. The remaining revenue of \$36,725 was generated from the United States.