

Unaudited Consolidated Financial Statements of

WAVEFRONT ENERGY AND ENVIRONMENTAL SERVICES INC.

For the Second Quarter ended February 28, 2005 and February 29, 2004

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

	As At 28-Feb-05 <u>(Unaudited)</u>	As At 31-Aug-04 (Restated - Note 4)
ASSETS		
CURRENT		
Cash	\$ 161,921	\$ 45,973
Accounts receivable	347,206	568,334
Prepaid expenses	9,472	4,835
Inventory	309,568	259,555
	828,167	878,697
CAPITAL ASSETS	662,808	622,209
INTANGIBLE ASSETS	52,857	39,929
DEPOSITS	7,265	11,007
	\$ 1,551,097	\$ 1,551,842
LIABILITIES		
CURRENT		
Bank indebtedness	\$ 164,708	\$ 182,591
Accounts payable and accrued liabilities	771,208	766,484
Unearned revenue	411,995	214,198
Notes payable (Note 6)	-	100,333
Current portion of obligation under capital leases	10,481	13,979
	1,358,392	1,277,585
OBLIGATION UNDER CAPITAL LEASES	7,652	14,481
DUE TO SHAREHOLDERS (Note 7)	34,189	529,704
	1,400,233	1,821,770
CAPITAL DEFICIENCY		
Capital stock (Note 9)	6,354,943	5,220,000
Contributed Surplus (Notes 4 and 9)	136,008	89,878
Deficit (Note 4)	(6,340,087)	(5,579,806)
	150,864	(269,928)
	\$ 1,551,097	\$ 1,551,842

APPROVED BY THE BOARD

"Brett C. 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)

	Six Month Period Ended		Three Month Period	
	February 28, 2005	February 29, (Restated Note 4)	February 28, 2005	February 29, (Restated Note 4)
REVENUE				
Sales	\$ 725,394	\$ 87,293	\$ 415,762	\$ 27,242
Other income	15,887	43,065	3,408	35,062
	741,281	130,358	419,170	62,304
COST OF GOODS SOLD	473,017	48,398	244,386	12,433
GROSS PROFIT	268,264	81,960	174,784	49,871
OPERATING EXPENSES				
Wages, employee benefits, and contract employees	380,261	352,184	185,001	181,457
Office	131,929	162,274	60,995	88,702
Research and development	96,400	78,206	42,789	52,062
Consultants	67,076	63,653	46,906	33,598
Travel and promotion	56,533	46,132	23,740	22,668
Professional fees	56,360	136,425	31,602	36,287
Listing and public company fees	52,591	82,616	31,359	62,766
Depreciation and amortization	48,892	65,186	24,610	34,400
Interest expense	37,288	24,657	13,898	12,098
Vehicle	34,839	29,735	13,552	15,988
Repairs and maintenance	9,424	16,568	6,901	3,128
Miscellaneous	6,423	106	6,369	17
Bad Debt	692	-	692	-
Research and development tax recovery	(8,207)	-	4,178	-
	970,501	1,057,742	492,592	543,171
LOSS FROM OPERATIONS	(702,237)	(975,782)	(317,808)	(493,300)
WRITEDOWN OF INVENTORY	(59,125)	-	(59,125)	-
LOSS ON DISPOSAL OF CAPITAL ASSETS	-	(490)	-	-
FOREIGN EXCHANGE LOSS	1,081	(4,349)	866	828
LOSS BEFORE INCOME TAXES	(760,281)	(980,621)	(376,067)	(492,472)
FUTURE INCOME TAX RECOVERY	-	4,485	-	2,990
NET LOSS	(760,281)	(976,136)	(376,067)	(489,482)
DEFICIT, BEGINNING OF PERIOD (as previously reported)	(5,500,602)	(4,683,605)	(5,964,020)	(4,424,006)
Adjustment for retroactive adoption of stock based compensation (Note 4)	(79,204)	(31,007)	-	(19,974)
DEFICIT, BEGINNING OF PERIOD (as restated)	(5,579,806)	(4,714,612)	(5,964,020)	(4,443,980)
Acquisition of PE-TECH Inc. (Note 5)	-	757,286	-	-
DEFICIT, END OF PERIOD	\$ (6,340,087)	\$ (4,933,462)	\$ (6,340,087)	\$ (4,933,462)
LOSS PER COMMON SHARE				
Basic and Diluted	\$ (0.03)	\$ (0.05)	\$ (0.02)	\$ (0.03)

WAVEFRONT ENERGY AND ENVIRONMENTAL SERVICES INC.
(formerly New Media Systems Inc.)
Consolidated Statements of Cash Flow (Unaudited)

	Six Month Period		Three Month Period	
	February 28 <u>2005</u>	February 29 <u>2004</u>	February 28 <u>2005</u>	February 29 <u>2004</u>
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES				
OPERATING				
Net loss	\$ (760,281)	\$ (976,136)	\$ (376,067)	\$ (489,482)
Items not affecting cash				
Depreciation and amortization	48,892	65,186	24,610	34,400
Writedown of inventory	59,125	-	59,125	-
Loss on disposal of capital assets	-	490	-	-
Stock based compensation (Note 9)	46,130	-	23,817	(1,281)
Future income tax recovery	-	(4,485)	-	(2,990)
	(606,134)	(914,945)	(268,515)	(459,353)
Changes in non-cash working capital	322,934	801,142	87,772	32,695
	(283,200)	(113,803)	(180,743)	(426,658)
FINANCING				
Proceeds from (repayment of) bank indebtedness	(17,883)	148,830	(85,494)	149,187
Regulator fees related to shares for debt	(321)	-	-	-
Proceeds from Private Placement (net of share issuance costs)	539,095	-	539,095	-
Proceeds from notes payable	-	75,000	(75,024)	75,000
Proceeds from options exercised	-	-	-	-
Proceeds from warrants exercised	-	-	-	-
Repayment of obligation under capital leases	(10,327)	(12,617)	(6,703)	(6,433)
	510,564	211,213	371,874	217,754
INVESTING				
Purchase of capital assets	(93,532)	(88,212)	(48,367)	(45,297)
Proceeds on disposal of capital assets	(1,622)	2,300	(1,622)	-
Intangible costs	(16,263)	(11,963)	(16,263)	(1,151)
	(111,417)	(97,875)	(66,252)	(46,448)
NET CASH INFLOW (OUTFLOW)	115,947	(465)	124,879	(255,352)
CASH, BEGINNING OF PERIOD	45,973	18,220	37,041	273,107
CASH, END OF PERIOD	\$ 161,920	\$ 17,755	\$ 161,920	\$ 17,755

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Amount of interest paid during the period \$ 46,466 \$ 5,248 \$ 41,110 \$ 3,707

During the first quarter, 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)

Six Month Period Ended February 28, 2005

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 February 28, 2005.

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 Notes 4 and 11. 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.

WAVEFRONT ENERGY AND ENVIRONMENTAL SERVICES INC.

(formerly New Media Systems Inc.)

Notes to the Consolidated Financial Statements (Unaudited)

Six Month Period Ended February 28, 2005

4. CHANGE IN ACCOUNTING POLICY (continued)

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, 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 retroactively 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 \$79,204 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 and to a director of the Corporation. The advance is unsecured, with no specified interest or repayment terms at this time.

WAVEFRONT ENERGY AND ENVIRONMENTAL SERVICES INC.

(formerly New Media Systems Inc.)

Notes to the Consolidated Financial Statements (Unaudited)

Six Month Period Ended February 28, 2005

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 (2004 - \$482,486) and certain accounts payable, totaling nil (2004 - \$47,218) until September 30, 2004, after which principal repayment is restricted to twenty percent (20%) of consolidated cash flows from operations. (See Note 9, for a shares-for-debt transaction.)

Interest expense recorded in the period totaled \$969 (2004 - \$17,701). Accrued interest payable at February 28, 2005 is \$38,165 (2004 - \$42,648) and is included in accounts payable and accrued liabilities.

8. RELATED PARTY TRANSACTIONS

During the six month period ended February 28, 2005, the Corporation incurred charges for wages, employee benefits, contract employees, and consultants totaling \$147,042 (2004 - \$141,050) that were paid to directors, significant shareholders, or a corporation controlled by a shareholder of the Corporation. As at February 28, 2005, no amounts (2004 - \$4,015) 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
Private Placement (c)	2,345,225	517,282
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Balance, February 28, 2005	27,998,340	6,288,096
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Warrants		
Balance, August 31, 2004	2,528,089	44,713
Private Placement warrants (c)	2,345,225	22,134
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Balance, February 28, 2005	4,873,314	66,847
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		\$ 6,354,943

WAVEFRONT ENERGY AND ENVIRONMENTAL SERVICES INC.

(formerly New Media Systems Inc.)

Notes to the Consolidated Financial Statements (Unaudited)

Six Month Period Ended February 28, 2005

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
Private Placement (c)	2,345,225	\$0.40	February '06
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Balance, February 28, 2005	4,873,314		

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
Cancelled	(75,000)	\$ 0.44	Apr '09
Cancelled	(50,000)	\$ 0.50	Sep '08
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Balance, February 28, 2005	1,852,955	\$ 0.47	

Exercise Price	Options Outstanding		Options Exercisable	
	Number Outstanding	Weighted average remaining contractual life	Number Exercisable	Weighted average remaining contractual life
\$0.44	495,455	4.2	256,250	4.2
\$0.45	470,000	4.7	78,333	4.7
\$0.50	757,500	3.7	555,000	3.7
\$0.55	130,000	3.8	104,167	3.8
	1,852,955	4.1	993,750	3.9

- (a) During the first 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 represents amounts owing to related parties.
- (b) During the first quarter 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.

WAVEFRONT ENERGY AND ENVIRONMENTAL SERVICES INC.

(formerly New Media Systems Inc.)

Notes to the Consolidated Financial Statements (Unaudited)

Six Month Period Ended February 28, 2005

9. SHARE CAPITAL (continued)

- (c) As of February 28, 2005, the Corporation closed a non-brokered private placement of 2,345,225 units (the "Private Placement Units"), each unit comprised of one common share and one-half of one non-transferable share purchase warrant in the capital stock of the Corporation at a price of \$0.23 per unit to net the treasury an aggregate of \$539,416. Each share purchase warrant was exercisable at a price of \$0.40 per share for the 12 months ending February 28, 2006. Directors of the Corporation subscribed 637,104 units of this non-brokered private placement.

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 February 28, 2005 was 5,806,932 (2004 – 8,710,398).

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 \$23,817 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 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 at the end of the quarter was 24,261,881 (2004 – 19,358,759).

WAVEFRONT ENERGY AND ENVIRONMENTAL SERVICES INC.

(formerly New Media Systems Inc.)

Notes to the Consolidated Financial Statements (Unaudited)

Six Month Period Ended February 28, 2005

11. SEGMENTED INFORMATION

The Corporation no longer managed its operations using operating segments.

In the period ended February 28, 2005, the Corporation recorded revenue from four customers. Sales from the top three customers amounted to \$395,701, \$123,354 and \$119,450, which represent 53.4%, 16.7% and 16.1% respectively of total revenue. In the comparative period for 2004, the Corporation recorded revenue from top two customers in the amount of \$45,691 and \$30,516, which represents 35.1%, and 23.4% of total revenue respectively.

The Corporation has generated revenue from products sold and services provided within Canada of \$975,488. The remaining revenue of \$43,848 was generated from the United States and \$21,945 was generated from Venezuela.