

Unaudited Consolidated Financial Statements of

WAVEFRONT ENERGY AND ENVIRONMENTAL SERVICES INC.

For the Third Quarter ended May 31, 2005 and 2004

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

	As At May 31, 2005 <u>(Unaudited)</u>	As At August 31, 2004 <u>(Restated - Note 4)</u>
ASSETS		
CURRENT		
Cash	\$ 47,769	\$ 45,973
Accounts receivable	129,227	568,334
Prepaid expenses	7,745	4,835
Inventory	26,331	259,555
	211,072	878,697
CAPITAL ASSETS	688,155	622,209
INTANGIBLE ASSETS	66,207	39,929
MINERAL PROPERTY INTERESTS	32,687	-
DEPOSITS	5,790	11,007
	\$ 1,003,911	\$ 1,551,842
LIABILITIES		
CURRENT		
Bank indebtedness	\$ 228,880	\$ 182,591
Accounts payable and accrued liabilities	751,317	766,484
Unearned revenue	117,701	214,198
Notes payable (Note 6)	75,686	100,333
Current portion of obligation under capital leases	10,826	13,979
	1,184,410	1,277,585
OBLIGATION UNDER CAPITAL LEASES DUE TO SHAREHOLDERS (Note 7)	4,812 34,189	14,481 529,704
	1,223,411	1,821,770
CAPITAL DEFICIENCY		
Capital stock (Note 9)	6,354,595	5,220,000
Contributed Surplus (Notes 4 and 9)	167,816	89,878
Deficit (Note 4)	(6,741,911)	(5,579,806)
	(219,500)	(269,928)
	\$ 1,003,911	\$ 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)

	Three Month Period		Nine Month Period Ended	
	May 31, 2005	May 31, 2004 (Restated Note 4)	May 31, 2005	May 31, 2004 (Restated Note 4)
REVENUE				
Sales	\$ 469,555	\$ 244,313	\$ 1,194,949	\$ 331,606
Other income	61	35,156	15,948	78,221
	469,616	279,469	1,210,897	409,827
COST OF GOODS SOLD	399,931	189,207	872,948	237,605
GROSS PROFIT	69,685	90,262	337,949	172,222
OPERATING EXPENSES				
Wages, employee benefits, and contract employees	215,238	177,888	595,499	530,072
Office	68,150	60,907	200,079	223,181
Research and development	26,798	45,267	123,198	123,473
Consultants	54,510	24,770	121,586	88,423
Travel and promotion	29,402	49,526	85,935	95,658
Depreciation and amortization	26,943	35,309	75,835	100,495
Vehicle	32,358	25,190	67,197	54,925
Professional fees	4,365	29,200	60,725	165,625
Listing and public company fees	5,144	14,883	57,735	97,499
Interest expense	6,419	13,684	43,707	38,341
Repairs and maintenance	514	6,778	9,938	23,346
Miscellaneous	(4,457)	2,193	1,966	2,299
Bad Debt	-	1,000	692	1,000
Research and development tax recovery	(3,450)	-	(11,657)	-
	461,934	486,595	1,432,435	1,544,337
LOSS FROM OPERATIONS	(392,249)	(396,333)	(1,094,486)	(1,372,115)
WRITEDOWN OF INVENTORY	-	-	(59,125)	-
LOSS ON DISPOSAL OF CAPITAL ASSETS	(6,687)	-	(8,309)	(490)
FOREIGN EXCHANGE LOSS	(1,266)	1,381	(185)	(2,968)
LOSS BEFORE INCOME TAXES	(400,202)	(394,952)	(1,162,105)	(1,375,573)
FUTURE INCOME TAX RECOVERY	-	2,243	-	6,728
NET LOSS	(400,202)	(392,709)	(1,162,105)	(1,368,845)
DEFICIT, BEGINNING OF PERIOD (as previously reported)	(6,341,709)	(4,933,462)	(5,500,602)	(4,683,605)
Adjustment for retroactive adoption of stock based compensation (Note 4)	-	(22,376)	(79,204)	(53,383)
DEFICIT, BEGINNING OF PERIOD (as restated)	(6,341,709)	(4,955,838)	(5,579,806)	(4,736,988)
Acquisition of PE-TECH Inc. (Note 5)	-	-	-	757,286
DEFICIT, END OF PERIOD	\$ (6,741,911)	\$ (5,348,547)	\$ (6,741,911)	\$ (5,348,547)
LOSS PER COMMON SHARE				
Basic and Diluted	\$ (0.02)	\$ (0.02)	\$ (0.05)	\$ (0.07)

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

NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES	Three Month Period		Nine Month Period	
	May 31, 2005	May 31, 2004 (Restated Note 4)	May 31, 2005	May 31, 2004 (Restated Note 4)
OPERATING				
Net loss	\$ (400,202)	\$ (392,709)	\$ (1,162,105)	\$ (1,368,845)
Items not affecting cash				
Depreciation and amortization	26,943	35,309	75,835	100,495
Writedown of inventory	-	-	59,125	-
Loss on disposal of capital assets	6,687	-	8,309	490
Stock based compensation (Note 9)	31,808	-	77,938	-
Future income tax recovery	-	(2,243)	-	(6,728)
	(334,764)	(359,643)	(940,898)	(1,274,588)
Changes in non-cash working capital	266,509	257,362	582,521	1,058,504
	(68,255)	(102,281)	(358,377)	(216,084)
FINANCING				
Proceeds from (repayment of) bank indebtedness	64,172	146,608	46,289	295,438
Proceeds from Private Placement (net of share issuance costs)	-	959,351	539,095	959,351
Share issuance costs related to financings & shares for debt	-	(98,920)	(321)	(98,920)
Proceeds from notes payable	(75,686)	25,333	(75,686)	100,333
Proceeds from options exercised	-	-	-	-
Proceeds from warrants exercised	-	-	-	-
Repayment of obligation under capital leases	(2,495)	(6,694)	(12,822)	(19,311)
	(14,009)	1,025,678	496,555	1,236,891
INVESTING				
Purchase of capital assets	495	(156,076)	(93,037)	(244,288)
Purchase of Mineral Property Interests	(32,687)	-	(32,687)	-
Proceeds on disposal of capital assets	800	-	6,100	2,300
Intangible costs	(495)	3,589	(16,758)	(8,374)
	(31,887)	(152,487)	(136,382)	(250,362)
NET CASH INFLOW	(114,151)	770,910	1,796	770,445
CASH, BEGINNING OF PERIOD	161,920	17,755	45,973	18,220
CASH, END OF PERIOD	\$ 47,769	\$ 788,665	\$ 47,769	\$ 788,665
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION				
Amount of interest paid during the period	\$ 8,443	\$ 5,873	\$ 37,213	\$ 11,121

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)

Nine Month Period Ended May 31, 2005

1. DESCRIPTION OF BUSINESS

Wavefront Energy and Environmental Services Inc. (the "Corporation") is incorporated under the Canada Business Corporations Act. The Corporation's principal business activities are the improvement of oil recovery, produced water disposal, and environmental groundwater remediation using its patented DeepWave Stimulation Process (formerly trade named Pressure Pulse Technology). During a 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 May 31, 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 considerable 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", and 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)

Nine Month Period Ended May 31, 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 the Corporation 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 and Environmental Service's common shares to the shareholders of PE-TECH, and in consideration for the PE-TECH issued and outstanding share purchase warrants, the Corporation issued 2,081,983 Wavefront Energy and Environmental Service's 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, the Corporation, a non-operating publicly listed enterprise, was acquired for accounting purposes. The Corporation 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 and Environmental Services) be treated as a charge to the retained earnings or deficit of the consolidated enterprise.

As at September 30, 2003, the financial position of the Corporation 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 advances of funds from directors and a related party of a director of the Corporation. The advances are unsecured, bear 14% interest and are repayable upon 30 days notice. Interest expensed as at May 31, 2005 is \$494 (2004 - \$897), of which \$64 has been paid and \$431 is included in Accounts Payable and Accrued Liabilities (2004 - \$897).

WAVEFRONT ENERGY AND ENVIRONMENTAL SERVICES INC.

(formerly New Media Systems Inc.)

Notes to the Consolidated Financial Statements (Unaudited)

Nine Month Period Ended May 31, 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 \$727 (2004 - \$26,550). Accrued interest payable at May 31, 2005 is \$47,820 (2004 - \$52,416) and is included in accounts payable and accrued liabilities.

8. RELATED PARTY TRANSACTIONS

During the nine month period ended May 31, 2005, the Corporation incurred charges for wages, employee benefits, contract employees, and consultants totaling \$218,778 (2004 - \$211,896) that were paid to directors, significant shareholders, or a corporation controlled by a shareholder of the Corporation. As at May 31, 2005, \$7,855 (2004 - \$6,051) was 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		Number	Stated Capital
unlimited common shares without par value			
Issued			
Balance, August 31, 2004		23,562,421	\$ 5,175,287
Shares for Debt (a)		2,090,694	595,527
Private Placement (d)		2,345,225	516,934
Balance, May 31, 2005		27,998,340	6,287,748
Warrants			
Balance, August 31, 2004		2,528,089	44,713
Private Placement warrants (d)		2,345,225	22,134
Balance, May 31, 2005		4,873,314	66,847
			\$ 6,354,595

WAVEFRONT ENERGY AND ENVIRONMENTAL SERVICES INC.

(formerly New Media Systems Inc.)

Notes to the Consolidated Financial Statements (Unaudited)

Nine Month Period Ended May 31, 2005

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 (d)	2,345,225	\$0.40	February '06
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Balance, May 31, 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
Cancelled	(35,000)		Sep '08 - Nov '08
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Balance, May 31, 2005	1,817,955	\$ 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	3.9	324,621	3.9
\$0.45	470,000	4.4	156,667	4.4
\$0.50	727,500	3.4	717,917	3.4
\$0.55	125,000	3.5	125,000	3.5
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	1,817,955	3.8	1,324,205	3.8

- (a) During the first quarter the Corporation completed a shares for debt transaction. This transaction settled \$595,848 in gross 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)

Nine Month Period Ended May 31, 2005

9. SHARE CAPITAL (continued)

- (c) During the period ended May 31, 2005 the TSX Venture Exchange approved a reduction in the exercise price of 1,238,171 warrants to \$0.40 with no change to the exercise price of the remaining 132,330 warrants. In addition, the TSX Venture Exchange approved an extension of the expiry dates of all 1,370,501 warrants to August 31, 2005. The warrants were originally issued in connection with a Short Form Offering Financing and concurrent non-brokered private placement. Directors of the Corporation hold all of the warrants with no change in price and 137,050 warrants that had a price reduction.
- (d) On 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 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 May 31, 2005 was 4,355,199 (2004 – 7,258,665).

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 \$31,808 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.

WAVEFRONT ENERGY AND ENVIRONMENTAL SERVICES INC.

(formerly New Media Systems Inc.)

Notes to the Consolidated Financial Statements (Unaudited)

Nine Month Period Ended May 31, 2005

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 25,005,307 (2004 – 19,704,608).

11. SEGMENTED INFORMATION

The Corporation no longer manages its operations using operating segments.

In the period ended May 31, 2005, the Corporation recorded revenue from four customers. Sales from the top three customers amounted to \$828,210, \$129,756 and \$119,450, which represent 68.4%, 10.7% and 9.9% 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 \$1,122,459. The remaining revenue of \$66,493 was generated from the United States and \$21,945 was generated from Venezuela.