

Unaudited Consolidated Financial Statements of

WAVEFRONT ENERGY AND ENVIRONMENTAL SERVICES INC.

For the First Quarter ended November 30, 2005 and 2004

TABLE OF CONTENTS

	<u>PAGE</u>
Consolidated Balance Sheet	1
Consolidated Statement of Loss and Deficit	2
Consolidated Statement of Cash Flow	3
Notes to the Consolidated Financial Statements	4 - 9

WAVEFRONT ENERGY AND ENVIRONMENTAL SERVICES INC.
Consolidated Balance Sheets (unaudited)

	As At November 30, 2005	As At August 31, 2005
ASSETS		
CURRENT		
Cash	\$ 269,020	\$ 144,634
Accounts receivable	143,650	69,284
Prepaid expenses	3,390	11,026
Inventory	53,149	53,149
	469,209	278,093
CAPITAL ASSETS	551,755	508,624
INTANGIBLE ASSETS	89,567	73,906
MINERAL PROPERTY INTERESTS	112,730	43,404
DEPOSITS	6,937	-
ASSET RETIREMENT OBLIGATION	58,380	28,540
	\$ 1,288,578	\$ 932,567
LIABILITIES		
CURRENT		
Bank indebtedness	\$ 100,677	\$ 246,380
Accounts payable and accrued liabilities	637,261	619,011
Unearned revenue	104,611	112,486
Notes payable (Note 5)	35,686	75,686
Advances on share subscription	-	450,607
Current portion of obligation under capital leases	10,884	11,183
	889,119	1,515,353
OBLIGATION UNDER CAPITAL LEASES	413	1,878
DUE TO SHAREHOLDERS (Note 4)	34,189	34,189
ASSET RETIREMENT OBLIGATION	58,380	29,483
	982,101	1,580,903
CAPITAL DEFICIENCY		
Capital stock (Note 6)	7,664,135	6,373,647
Contributed Surplus (Note 6)	181,827	165,554
Deficit	(7,539,485)	(7,187,537)
	306,477	(648,336)
	\$ 1,288,578	\$ 932,567

APPROVED BY THE BOARD

"Brett Davidson" (signed) Director

"D. Brad Paterson" (signed) Director

WAVEFRONT ENERGY AND ENVIRONMENTAL SERVICES INC.
Consolidated Statements of Loss and Deficit (unaudited)
Three month period ended November 30

	<u>2005</u>	<u>2004</u>
REVENUE		
Sales	\$ 95,339	\$ 309,632
Other income	18	12,479
	95,357	322,111
COST OF GOODS SOLD	56,236	228,631
GROSS PROFIT	39,121	93,480
OPERATING EXPENSES		
Wages, employee benefits, and contract employees	163,094	195,260
Research and development	16,951	53,611
Office	58,445	70,934
Consultants	5,000	20,170
Depreciation and amortization	26,530	24,282
Professional fees	32,405	24,758
Travel and promotion	29,861	32,793
Vehicle	22,784	21,287
Listing and public company fees	16,490	21,232
Interest expense	7,605	23,390
Repairs and maintenance	5,686	2,523
Miscellaneous	2,805	54
Accretion of asset retirement obligation	1,530	-
Bad debt	-	-
Research and development tax recovery	-	(12,385)
	389,186	477,909
LOSS FROM OPERATIONS	(350,065)	(384,429)
FOREIGN EXCHANGE LOSS	(1,883)	215
NET LOSS	(351,948)	(384,214)
DEFICIT, BEGINNING OF PERIOD	(7,187,537)	(5,579,806)
DEFICIT, END OF PERIOD	\$ (7,539,485)	\$ (5,964,020)
LOSS PER COMMON SHARE		
Basic and Diluted	\$ (0.01)	\$ (0.02)

WAVEFRONT ENERGY AND ENVIRONMENTAL SERVICES INC.
Consolidated Statements of Cash Flow (unaudited)
Three month period ended November 30

NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES	<u>2005</u>	<u>2004</u>
OPERATING		
Net loss	\$ (351,948)	\$ (384,214)
Items not affecting cash		
Depreciation and amortization	26,530	24,282
Stock based compensation	16,166	22,313
Accretion of asset retirement obligation	1,530	-
	(307,721)	(337,619)
Changes in non-cash working capital	(62,861)	239,041
	(370,582)	(98,578)
FINANCING		
Proceeds from (repayment of) bank indebtedness	(145,703)	67,611
Share issuance costs related to shares-for-debt settlement	-	(4,200)
Proceeds from notes payable	(40,000)	75,024
Proceeds from options exercised	36,141	-
Proceeds from warrants exercised	800,942	-
Repayment of obligation under capital leases	(1,764)	(3,624)
	649,616	134,811
INVESTING		
Purchase of capital assets	(66,633)	(45,165)
Purchase of mineral property interests	(69,326)	-
Intangible costs	(18,689)	-
	(154,648)	(45,165)
NET CASH INFLOW (OUTFLOW)	124,386	(8,932)
CASH, BEGINNING OF PERIOD	144,634	45,973
CASH, END OF PERIOD	\$ 269,020	\$ 37,041
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Amount of interest paid during the period	3,278	5,357

WAVEFRONT ENERGY AND ENVIRONMENTAL SERVICES INC.

Notes to the Consolidated Financial Statements (Unaudited)

Three Month Period Ended November 30, 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 enhancement and improvement of oil recovery and environmental groundwater remediation using the Corporation's patented DeepWaveSM technology.

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, 2005. 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, 2005.

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 balance sheet classifications used.

4. DUE TO SHAREHOLDERS

In connection with the reverse take-over of PE-TECH Inc., dated September 30, 2003, certain directors and shareholders 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 balance until September 30, 2004, after which principal repayment was restricted to twenty percent (20%) of consolidated cash flows from operations. As such, the entire balance has been classified as long-term debt at November 30, 2005 as the Corporation does not anticipate achieving positive cash flows from operations in fiscal 2006.

In the prior year the Corporation settled \$495,515 of amounts due to shareholders in accordance with a Shares-for-Debt Settlement Agreement. As a result, the balance outstanding at November 30, 2005, was \$34,189.

The balance payable at November 30, 2005 is unsecured, bears interest at 8.5% per annum and has repayment terms in accordance with the Debt Repayment Agreement noted above. Interest expense for the three months ended November 30, 2005, totaled \$727 (2004 - \$8,851). Accrued interest payable at November 30, 2005, is \$40,350 (2004 - \$69,197) and is included in accounts payable and accrued liabilities.

WAVEFRONT ENERGY AND ENVIRONMENTAL SERVICES INC.

Notes to the Consolidated Financial Statements (Unaudited)

Three Month Period Ended November 30, 2005

5. NOTES PAYABLE

Notes payable represents amounts due to directors of the Corporation. The notes payable are unsecured, bear an interest rate of 14% per annum, have no fixed repayment terms and are repayable 30 days after demand. Interest expense for the three months ended November 30, 2005, totaled \$2,649 (2004 - \$3,930). Accrued interest payable as at November 30, 2005 is \$15,280 (2004 - \$12,631) and is included in accounts payable and accrued liabilities.

6. SHARE CAPITAL

Capital stock

The Corporation's authorized and issued share capital for the three months ended November 30, 2005 and 2004 are as follows:

Authorized

Unlimited common shares without par value

	2005		2004	
	Number	Stated Capital	Number	Stated Capital
Issued				
Balance, beginning of period	27,998,341	\$ 6,306,799	23,562,422	\$ 5,201,515
Shares-for-debt-settlement	-	-	2,090,694	591,648
Shares issued in private placement	2,087,856	404,408	-	-
Stock options exercised	82,783	42,276	-	-
Warrants exercised	1,979,660	850,656	-	-
Balance, November 30, 2005	32,148,640	7,604,139	25,653,116	5,793,163
Warrants				
Balance, beginning of period	4,873,314	66,848	2,528,089	44,713
Warrants granted in private placement	1,959,160	42,974	-	-
Exercised	1,979,660	49,714	-	-
Expired	5,000	113	937,364	-
Balance, November 30, 2005	4,847,814	59,995	1,590,725	44,713
		\$ 7,664,135		\$ 5,837,876

Notes

1. Effective November 29, 2004, the Corporation settled \$595,848 of notes payable and amounts due to shareholders by way of a Shares-for-Debt Settlement Agreement that resulted in the issuance of 2,090,694 common shares at a deemed price of \$0.285 per common share. This one-time transaction was subject to regulatory approval. The Corporation does not anticipate further shares-for-debt transactions in the foreseeable future. The Corporation paid filing fees of \$4,200 resulting in a net increase to share capital of \$591,648. This debt settlement has been treated as a non-cash transaction for the purposes of the consolidated statement of cash flows.

WAVEFRONT ENERGY AND ENVIRONMENTAL SERVICES INC.

Notes to the Consolidated Financial Statements (Unaudited)

Three Month Period Ended November 30, 2005

6. SHARE CAPITAL (continued)

- Effective September 1, 2005, the Corporation sold 1,959,160 units of the Corporation at a price of \$0.23 per unit for gross proceeds of \$450,607. The 1,959,160 units were sold by way of a non-brokered private placement. Each unit consisted of one common share and one common share purchase warrant, with each full share purchase warrant entitling the holder to acquire a common share at a price of \$0.40 for a period of 12 months ending September 1, 2006. The common share purchase warrants were valued at \$42,974. Of the 1,959,160 units sold, a director of the Corporation subscribed for 276,767 units. In connection with this non-brokered private placement, the Corporation issued 128,696 common shares at a deemed price of \$0.23 as a finder's fee to two arm's length parties. In addition, the Corporation paid filing fees of \$3,225, resulting in net cash proceeds of \$447,382. In November 2005, 132,130 of the common share purchase warrants were exercised for gross proceeds of \$52,852.
- Of the 82,783 stock options exercised during three months ended November 30, 2005, 68,200 stock options were exercised by a director of the Corporation at a price of \$0.44.
- Of the 1,979,660 common share purchase warrants that were exercised during the three months ended November 30, 2005, 375,276 common share purchases warrants were exercised by directors of the Corporation at prices ranging from \$0.40 to \$0.55.

Common Share Purchase Warrants

The following table summarizes information about common share purchase warrants outstanding for the three months ended November 30, 2005:

Number	Exercise Price	Expiry Date
2,078,620	\$ 0.40	February 28, 2006
1,827,030	0.40	September 1, 2006
4,800	0.35	May 31, 2006
3,910,450		

Notes

- Subsequent to the reporting period the 4,800 common share purchase warrants were exercised for gross proceeds of \$1,680.

Stock-based compensation Plan

The Corporation maintains an Employee, Director, Officer and Consultant Stock Option Plan under which the Corporation may grant options for up to 5,130,623 shares of the Corporation at an exercise price equal to or greater than the market price of the Corporation's stock at the date of grant. Options awarded are exercisable for a period of five years and vest in equal tranches over a period of eighteen (18) months.

A summary of the status of the Corporation's stock option plan as at November 30, 2005 and 2004, and the changes during the years ending on those dates are presented below:

Stock Options	2005		2004	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Outstanding, beginning of period	2,050,455	\$ 0.46	1,547,955	\$ 0.48
Granted	240,000	0.40	-	-
Exercised	82,783	0.44	-	-
Cancelled	-	-	40,000	0.55
Outstanding, November 30, 2005	2,207,672	\$ 0.49	1,507,955	\$ 0.51

WAVEFRONT ENERGY AND ENVIRONMENTAL SERVICES INC.

Notes to the Consolidated Financial Statements (Unaudited)

Three Month Period Ended November 30, 2005

6. SHARE CAPITAL (continued)

The following table summarizes information about stock options outstanding at November 30, 2005:

Exercise Price	Options Outstanding		Options Exercisable	
	Number Outstanding	Weighted average remaining contractual life	Number Exercisable	Weighted average remaining contractual life
\$0.55	125,000	3.0	125,000	3.0
\$0.50	727,500	2.9	727,500	2.9
\$0.45	470,000	3.9	313,333	3.9
\$0.44	419,755	3.4	419,755	3.4
\$0.40	465,417	4.6	78,750	4.6
	2,207,672	3.6	1,664,338	3.3

Notes:

1. Effective September 1, 2005, the Corporation issued 240,000 stock options to directors of the Corporation with an exercise price of \$0.40. These stock options are subject to the stock option plan and set to expire on September 1, 2010.
2. Subsequent to the reporting period, 725,000 stock options were issued with an exercise price of \$2.95. These stock options are subject to the stock option plan and set to expire on January 11, 2011. Of the 725,000 stock options issued, 525,000 were issued to directors of the Corporation.
3. Subsequent to the reporting period, 254,083 stock options were exercised at prices ranging from \$0.40 to \$0.50 for gross proceeds of \$113,336. Of the 254,083 stock options exercised, 227,000 were exercised by a director of the Corporation.

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 \$16,166 in compensation expense was recorded relating to employee stock options outstanding. 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	3.51%	3.88%
Average Life	5 yrs	5 yrs
Volatility Rate	58.70%	74.27%
Marketability Discount	60%	60%
Weighted Fair Value of Options Granted	\$0.07	\$0.12

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.

Subsequent brokered private placement

Subsequent to the reporting period the Corporation closed a brokered private placement for 7,038,008 common shares of the Corporation at a price of \$1.35 for gross proceeds of \$9,501,311. Management has estimated total transaction costs of approximately \$500,000, resulting in net proceeds from the financing of approximately \$9,001,311. All common shares issued in connection with this financing will be subject to a four-month hold period.

WAVEFRONT ENERGY AND ENVIRONMENTAL SERVICES INC.

Notes to the Consolidated Financial Statements (Unaudited)

Three Month Period Ended November 30, 2005

7. 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 weighted average number of common shares outstanding was 30,388,119 (2004 – 23,608,370).

Diluted loss per share is computed by giving effect to the potential dilution that would occur if stock options and common share purchase warrants were exercised. The treasury stock method assumes that the proceeds received from the exercise of the "in-the-money" stock options and common share purchase warrants are used to repurchase common shares at the average market price for the three months ending November 30, 2005. The effect of the potential exercise of stock option and common share purchase warrants is anti-dilutive and is therefore not presented.

8. MINERAL PROPERTY INTERESTS

In the prior year the Corporation entered into an Option Agreement (the "Option Agreement") to acquire ninety percent (90%) of the working interest in the production, equipment and mineral leases of Phoenix Oil, LLC of Claremore, Oklahoma, for total consideration of U.S. \$180,000. The leases, known as the Chelsea-Alluwe Waterflood Leases, are comprised of 780-acres and are situated in Rogers County, Oklahoma. For the Option Agreement, the Corporation paid a U.S. \$15,000 deposit that was applied to the total purchase price. A related limited liability company ("LLC") executed the Option Agreement on behalf of the Corporation by paying the remaining U.S. \$165,000 of the purchase price for a sixty percent (60%) working interest in the leases. A director and a related party to a director of the Corporation control fifty-five percent (55%) of the voting membership units of the LLC. In consideration of the U.S. \$15,000 deposit paid by the Corporation, it retained a thirty percent (30%) working interest in the leases. Each working interest party is responsible for operating and field development costs in proportions relative to their working interest percentage.

The Corporation has capitalized and included in mineral property interests its proportionate share of the development costs of \$36,256 related to the Rogers County venture. This amount is due to the LLC joint venture partner and is included in accounts payable and accrued liabilities. Total accrued liabilities owed to the LLC joint venture partner, as at November 30, 2004 is \$48,596. No costs were incurred on these leases for the period ended November 30, 2005.

In addition, the Corporation has recognized production revenue of \$7,579 related to the Rogers County venture. This amount is due from the LLC joint venture partner and is included in accounts receivable.

During the three-month period ended November 30, 2005, the Corporation acquired 100% of the working interest in certain mineral leases adjacent to the Rogers County leases for total consideration of U.S. \$29,000. No costs were incurred on these leases for the period ended November 30, 2005.

WAVEFRONT ENERGY AND ENVIRONMENTAL SERVICES INC.

Notes to the Consolidated Financial Statements (Unaudited)

Three Month Period Ended November 30, 2005

9. SEGMENTED INFORMATION

In the three-month period ended November 30, 2005, the Corporation recorded revenue from eight (2004 – four) customers. Sales from the top two customers amounted to \$39,262 and \$27,300, which represent 41% and 29% of total revenue respectively. In 2004, the Corporation recorded revenue from the top two customers of \$274,701, and \$29,232, which represents 85% and 9% of total revenue respectively.

The Corporation has generated revenue from products sold and services provided within Canada of \$76,354 (2004 – \$285,386). The remaining revenue was generated from the United States (2005 - \$18,985; 2004 – \$36,725).