

Unaudited Consolidated Financial Statements of

WAVEFRONT ENERGY AND ENVIRONMENTAL SERVICES INC.

For the Second Quarter ended February 28, 2006 and 2005

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

	As At 28-Feb-06	As At August 31, 2005 (Note 2)
ASSETS		
CURRENT		
Cash	\$ 9,606,566	\$ 144,634
Accounts receivable	392,996	69,284
Prepaid expenses	25,460	11,026
Inventory	53,149	53,149
	10,078,171	278,093
CAPITAL ASSETS (Note 7)	745,378	508,624
INTANGIBLE ASSETS	149,049	73,906
MINERAL PROPERTY INTERESTS (Note 7)	49,823	43,404
DEPOSITS	6,937	-
ASSET RETIREMENT OBLIGATION	79,487	28,540
	\$ 11,108,846	\$ 932,567
LIABILITIES		
CURRENT		
Bank indebtedness	\$ -	\$ 246,380
Accounts payable and accrued liabilities	520,623	619,011
Unearned revenue	101,487	112,486
Notes payable (Note 4)	35,686	75,686
Advances on share subscription	-	450,607
Current portion of obligation under capital leases	7,652	11,183
	665,448	1,515,353
OBLIGATION UNDER CAPITAL LEASES	-	1,878
DUE TO SHAREHOLDERS (Note 3)	34,189	34,189
ASSET RETIREMENT OBLIGATION	84,383	29,483
	784,020	1,580,903
CAPITAL DEFICIENCY		
Capital stock (Note 5)	18,128,659	6,373,647
Contributed Surplus (Note 5)	308,925	165,554
Deficit	(8,112,758)	(7,187,537)
	10,324,826	(648,336)
	\$ 11,108,846	\$ 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)

Six month period ended February 28

	Six Month Period Ended February 28		Three Month Period Ended February 28	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
REVENUE				
Sales	\$ 265,269	\$ 725,394	\$ 169,930	\$ 415,762
Other income	60	15,887	42	3,408
	265,329	741,281	169,972	419,170
COST OF GOODS SOLD	142,928	473,017	86,692	244,386
GROSS PROFIT	122,401	268,264	83,280	174,784
OPERATING EXPENSES				
Wages, employee benefits, and contract employees	507,163	380,261	344,069	185,001
Office	126,920	131,929	68,475	60,995
Research and development	33,956	96,400	17,005	42,789
Travel and promotion	88,778	56,533	58,917	23,740
Professional fees	68,132	56,360	35,727	31,602
Depreciation and amortization	54,417	48,892	27,887	24,610
Interest expense	(7,418)	37,288	(15,023)	13,898
Vehicle	40,768	34,839	17,984	13,552
Listing and public company fees	69,863	52,591	53,373	31,359
Consultants	24,406	67,076	19,406	46,906
Repairs and maintenance	11,021	9,424	5,335	6,901
Miscellaneous	4,269	6,423	1,464	6,369
Accretion of asset retirement obligation	4,102	-	2,572	-
Bad Debt	-	692	-	692
Research and development tax recovery	-	(8,207)	-	4,178
	1,026,377	970,501	637,191	492,592
LOSS FROM OPERATIONS	(903,976)	(702,237)	(553,911)	(317,808)
WRITE-DOWN OF INVENTORY	-	(59,125)	-	(59,125)
WRITE-DOWN OF MINERAL RIGHTS (Note 7)	(12,836)	-	(12,836)	-
FOREIGN EXCHANGE LOSS	(8,409)	1,081	(6,526)	866
LOSS BEFORE INCOME TAXES	(925,221)	(760,281)	(573,273)	(376,067)
FUTURE INCOME TAX RECOVERY (Note 9)	-	-	-	-
NET LOSS	(925,221)	(760,281)	(573,273)	(376,067)
DEFICIT, BEGINNING OF PERIOD	(7,187,537)	(5,579,806)	(7,539,485)	(5,964,020)
DEFICIT, END OF PERIOD	\$ (8,112,758)	\$ (6,340,087)	\$ (8,112,758)	\$ (6,340,087)
LOSS PER COMMON SHARE				
Basic and Diluted	\$ (0.03)	\$ (0.03)	\$ (0.02)	\$ (0.02)

WAVEFRONT ENERGY AND ENVIRONMENTAL SERVICES INC.

Consolidated Statements of Cash Flow (unaudited)

Six month period ended February 28

	Six Month Period Ended		February	Three Month Period Ended	
	28		February	February 28	
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES	2006	2005	2006	2005	
OPERATING					
Net loss	\$ (925,221)	\$ (760,281)	\$ (573,273)	\$ (376,067)	
Items not affecting cash					
Depreciation and amortization	54,417	48,892	27,887	24,610	
Write-down of inventory	-	59,125	-	59,125	
Write-down of mineral rights	12,836	-	12,836	-	
Stock based compensation	156,957	46,130	140,790	23,817	
Accretion of asset retirement obligation	4,102	-	2,572	-	
	(696,908)	(606,134)	(389,187)	(268,515)	
Changes in non-cash working capital	(451,818)	322,934	(388,957)	83,893	
	(1,148,726)	(283,200)	(778,144)	(184,622)	
FINANCING					
Proceeds from (repayment of) bank indebtedness	(246,380)	(17,883)	(100,677)	(85,494)	
Share issuance costs related to shares-for-debt settlement	-	(321)	-	3,879	
Proceeds from private placement (net of share issuance costs)	9,404,890	539,095	8,954,283	539,095	
Advances on share subscription	(450,607)	-	-	-	
Proceeds from (repayment of) notes payable	-	-	-	(75,024)	
Proceeds from options exercised	149,477	-	113,336	-	
Proceeds from warrants exercised	2,048,853	-	1,287,911	-	
Repayment of obligation under capital leases	(5,409)	(10,327)	(3,645)	(6,703)	
	10,900,824	510,564	10,251,208	375,753	
INVESTING					
Purchase of capital assets	(236,754)	(93,532)	(170,121)	(48,367)	
Purchase of mineral property interests (Notes 2 & 7)	21,732	-	91,058	-	
Proceeds on disposal of capital assets	-	(1,622)	-	(1,622)	
Intangible costs	(75,143)	(16,263)	(56,454)	(16,263)	
	(290,165)	(111,417)	(135,517)	(66,252)	
NET CASH INFLOW (OUTFLOW)	9,461,933	115,947	9,337,547	124,879	
CASH, BEGINNING OF PERIOD	144,634	45,973	269,020	37,041	
CASH, END OF PERIOD	\$ 9,606,567	\$ 161,920	\$ 9,606,567	\$ 161,920	
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION					
Amount of interest paid during the period	48,204	8,443	44,926	3,086	

WAVEFRONT ENERGY AND ENVIRONMENTAL SERVICES INC.

Notes to the Consolidated Financial Statements (Unaudited)

Six Month Period Ended February 28, 2006

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 ("Canadian GAAP") principles, using the same accounting policies as set out in the financial statements of the Corporation for the year ended August 31, 2005.

Omitted from these statements are certain information and note disclosure normally included in the annual consolidated financial statements prepared in accordance with Canadian GAAP. The consolidated financial statements and notes presented should be read in accordance with the audited consolidated financial statements for the year ended August 31, 2005.

Certain of the prior year amounts have been reclassified to conform with the presentation adopted for the current year.

3. 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 February 28, 2006, was \$34,189.

The balance payable at February 28, 2006 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 six months ended February 28, 2006, totaled \$1,455 (2005 - \$9,578). Accrued interest payable at February 28, 2006, is \$24,501 (2005 - \$38,164) and is included in accounts payable and accrued liabilities.

4. 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 six months ended February 28, 2006, totaled \$3,803 (2005 - \$2,480). Accrued interest payable as at February 28, 2006 is \$3,877 (2005 - \$9,552) and is included in accounts payable and accrued liabilities.

WAVEFRONT ENERGY AND ENVIRONMENTAL SERVICES INC.

Notes to the Consolidated Financial Statements (Unaudited)

Six Month Period Ended February 28, 2006

5. SHARE CAPITAL

Capital stock

The Corporation's authorized and issued share capital for the six months ended February 28, 2006 and 2005 are as follows:

Authorized

Unlimited common shares without par value

	2006		2005	
	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 ⁽¹⁾	-	-	2,090,694	591,648
Shares issued in private placement ⁽²⁾⁽³⁾⁽⁴⁾	9,125,864	9,447,864	2,345,225	513,636
Stock options exercised ⁽⁵⁾	336,866	175,434	-	-
Warrants exercised ⁽⁶⁾	5,200,037	2,183,430	-	-
Balance, November 30, 2005	42,661,108	18,113,527	27,998,341	6,306,799
Warrants				
Balance, beginning of period	4,873,314	66,848	2,528,089	44,713
Warrants granted in private placement ⁽²⁾⁽³⁾	1,959,160	42,974	2,345,225	22,134
Exercised ⁽⁶⁾	5,200,037	94,577	-	-
Expired	5,000	113	-	-
Balance, November 30, 2005	1,627,437	15,132	4,873,314	66,847
		\$ 18,128,659		\$ 6,373,646

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.
2. Effective February 28, 2005, the Corporation sold 2,345,225 units of the Corporation at a price of \$0.23 per unit for gross proceeds of \$539,416. The 2,345,225 units were sold by way of a non-brokered private placement. Each unit consisted of one common share and one-half 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 February 28, 2006. The common share purchase warrants were valued at \$22,134. Of the 2,345,225 units sold, directors of the Corporation subscribed for 637,104 units. In connection with this non-brokered private placement, paid filing fees of \$4,524, resulting in net cash proceeds of \$534,892.

WAVEFRONT ENERGY AND ENVIRONMENTAL SERVICES INC.

Notes to the Consolidated Financial Statements (Unaudited)

Six Month Period Ended February 28, 2006

5. SHARE CAPITAL (continued)

3. 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 and legal fees of \$3,225, resulting in net cash proceeds of \$447,382.
4. Effective January 11, 2006, the Corporations sold 7,038,008 common shares at a price of \$1.35 per common shares for gross proceeds of \$9,501,311. The 7,038,000 common shares were sold by way of a non-brokered private placement. The Corporation paid a finders fee in the amount of \$450,079 to an arms length party. In addition, the Corporation paid filing and legal fees of \$50,750, resulting in net cash proceeds of \$9,000,482.
5. Of the 336,866 stock options exercised during the six months ended February 28, 2006, 295,230 stock options were exercised by a director of the Corporation at a prices ranging from \$0.40 to \$0.44. Subsequent to the reporting period 72,500 incentive stock options were exercised at prices ranging from \$0.40 to \$0.50 resulting in gross proceeds of \$31,550. Of the subsequent incentive stock option exercises, a director of the Corporation exercised 45,000 incentive stock options.
6. Of the 5,200,037 common share purchase warrants that were exercised during the six months ended February 28, 2006, 906,484 common share purchases warrants were exercised by directors of the Corporation at prices ranging from \$0.35 to \$0.55.

Common Share Purchase Warrants

The following table summarizes information about common share purchase warrants outstanding for the six months ended February 28, 2006:

Number	Exercise Price	Expiry Date
690,073	\$ 0.40	September 1, 2006
690,073		

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. All options awarded are exercisable for a period of five years and vest in equal tranches at three (3) month intervals over a period of eighteen (18) months.

A summary of the status of the Corporation's stock option plan as at February 28, 2006 and 2005, and the changes during the years ending on those dates are presented below:

WAVEFRONT ENERGY AND ENVIRONMENTAL SERVICES INC.

Notes to the Consolidated Financial Statements (Unaudited)

Six Month Period Ended February 28, 2006

5. SHARE CAPITAL (continued)

Stock Options	2006		2005	
	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	965,000	2.32	470,000	0.45
Exercised	336,866	0.43	-	-
Cancelled	35,000	0.43	165,000	0.48
Outstanding, February 28, 2006	2,643,589	\$ 1.26	1,852,955	\$ 0.44

The following table summarizes information about stock options outstanding at February 28, 2006:

Exercise Price	Options Outstanding		Options Exercisable	
	Number Outstanding	Weighted average remaining contractual life	Number Exercisable	Weighted average remaining contractual life
\$2.95	725,000	4.9	-	4.9
\$0.55	125,000	3.8	125,000	3.8
\$0.50	697,500	3.6	697,500	3.6
\$0.45	407,755	4.6	391,666	4.6
\$0.44	255,000	4.2	255,000	4.2
\$0.40	433,334	5.1	149,166	5.1
	2,643,589	4.4	1,618,332	4.4

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. Effective January 11, 2006, the Corporation issued 725,000 stock options to directors and employees of the Corporation 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, 72,500 stock options were exercised at prices ranging from \$0.40 to \$0.50 for gross proceeds of \$31,550. Of the 72,500 stock options exercised, 45,000 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 six months ending February 28, 2006, the Corporation incurred \$156,957 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:

WAVEFRONT ENERGY AND ENVIRONMENTAL SERVICES INC.

Notes to the Consolidated Financial Statements (Unaudited)

Six Month Period Ended February 28, 2006

5. SHARE CAPITAL (continued)

Stock Options	2006		2005	
	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	965,000	2.32	470,000	0.45
Exercised	336,866	0.43	-	-
Cancelled	35,000	0.43	165,000	0.48
Outstanding, February 28, 2006	2,643,589	\$ 1.26	1,852,955	\$ 0.44

	Ranging from	
Dividend Yield	-	-
Risk-free Rate	3.51%	3.95%
Average Life	5 yrs	5 yrs
Volatility Rate	58.70%	78.12%
Marketability Discount	0%	60%
Weighted Fair Value of Options Granted	\$0.07	\$1.41

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.

6. 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 31,818,243 (2005 – 24,261,881).

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 six months ending February 28, 2006. The effect of the potential exercise of stock option and common share purchase warrants is anti-dilutive and is therefore not presented.

7. 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

WAVEFRONT ENERGY AND ENVIRONMENTAL SERVICES INC.

Notes to the Consolidated Financial Statements (Unaudited)

Six Month Period Ended February 28, 2006

7. MINERAL PROPERTY INTERESTS (continued)

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.

Certain of the prior year amounts have been reclassified from mineral rights to capital assets to conform with the presentation adopted for the current year. In addition during the reporting period ending February 28, 2006, the LLC assigned to the Corporation as the operatorship of the Rogers County leases. The Corporation, as the operator will now be responsible for managing and paying all operating expenses associated with the Rogers County leases.

The Corporation has capitalized and included in capital assets its proportionate share of the oil well development costs of \$112,545 related to the Rogers County venture. As well, \$5,414 in expenses were incurred on these leases for the period ended February 28, 2006. Of these amounts \$41,199 in oil well development costs and \$3,030 are due to the LLC joint venture partner and are included in accounts payable and accrued liabilities. Total accrued liabilities owed to the LLC joint venture partner, as at February 28, 2006 is \$53,313.

As the operator, for the period ended February 28, 2006 the Corporation has paid \$237,820 in oil well development costs \$4,762 in expenses related to the Rogers County leases. The Corporation has reduced these oil well development costs and expenses by its working partners' relative working interest percentage. The proportionate working partners' interest share is included in accounts receivable totaling \$169,808, of which \$145,549 is owed from the LLC joint venture partner.

In addition, the Corporation has recognized production revenue of \$9,945 related to the Rogers County venture. Of the \$9,945 in production revenue, \$1,000 is due from the LLC joint venture partner and is included in accounts receivable.

In addition, the Corporation has recognized production revenue of \$9,945 related to the Rogers County venture. Of the \$9,945 in production revenue, \$1,000 is due from the LLC joint venture partner and is included in accounts receivable.

8. SEGMENTED INFORMATION

In the three-month period ended February 28, 2006, the Corporation recorded revenue from nine (2005 – four) customers. Sales from the top two customers amounted to \$100,862 and \$90,278, which represent 38% and 34% of total revenue respectively. In 2005, the Corporation recorded revenue from the top two customers of \$395,701, and \$123,354, which represents 53% and 17% of total revenue respectively.

The Corporation has generated revenue from products sold and services provided within Canada of \$148,761 (2005 – \$675,488). The remaining revenue of \$116,658 (2005 - \$43,848) was generated from the United States (2005 - \$21,945 was generated from Venezuela).