Wedge Energy International Inc.
Consolidated Financial Statements
For the years ended December 31, 2009 & 2008

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Management's Report to the Shareholders

To the Shareholders of Wedge Energy International Inc.

The consolidated financial statements for the year ended December 31, 2009 & 2008 for Wedge Energy International Inc. ("Wedge") are the responsibility of management. These financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

Wedge maintains appropriate systems of internal control, which are designed to provide reasonable assurance that transactions are appropriately authorized, the assets are safeguarded from loss, and the financial records provide reliable information for the preparation of the financial statements.

The Board of Directors ("Board") is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal controls. The Board exercises its responsibility through the Audit Committee, which has a majority of non-management Directors. This committee meets with management and the auditors to satisfy itself that management responsibilities are properly discharged and to review the financial statements before they are presented to the Board for approval. These financial statements have been approved by the Board on the recommendation of the Audit Committee.

Meyers Norris Penny LLP, an independent firm of Chartered Accountants, was appointed by the Audit Committee to audit the consolidated financial statements of Wedge in accordance with Canadian Generally Accepted Auditing Standards. The report is presented with the consolidated financial statements.

Robin Dow
Chief Executive Officer
March 26, 2010

Auditors' Report

To the Shareholders of Wedge Energy International Inc.:

We have audited the consolidated balance sheet of Wedge Energy International Inc. as at December 31, 2009 and the consolidated statements of loss, comprehensive loss and deficit and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The financial statements as at and for the year ended December 31, 2008 were audited by other auditors, who expressed an opinion without reservation on those statements in their report dated August 14, 2009.

Meyers Norris Penny LLP

Calgary, Alberta
March 26, 2010

Chartered Accountants

MNP

Wedge Energy International Inc.
Consolidated Balance Sheets
As at December 31

	2009	2008
ASSETS		
Current Assets		
Cash	**$ 37,585**	$ 14,113
Accounts receivable	**4,005**	23,636
Prepaid expenses	**-**	12,499
	41,590	50,248
Property and equipment (note 3)	**-**	637,662
Future income tax assets (note 11)	**-**	37,800
	$ 41,590	$ 725,710
LIABILITIES		
Current liabilities		
Accounts payable & accrued liabilities	**$ 538,078**	$ 958,770
Part XII.6 tax (note 5)	**118,609**	90,709
Flow-through related obligations (note 5)	**316,924**	254,824
Liability component - convertible debt (note 6)	**258,975**	-
	1,232,586	1,304,303
Asset retirement obligations (note 7)	**-**	55,852
	1,232,586	1,360,155
SHAREHOLDERS' DEFICIENCY		
Share capital (note 8)	**7,293,609**	6,946,953
Contributed surplus (note 9)	**940,296**	627,956
Warrants (note 10)	**572,595**	774,381
Equity component - convertible debt (note 6)	**14,700**	-
Deficit	**(10,012,196)**	(8,983,735)
	(1,190,996)	(634,445)
	$ 41,590	$ 725,710

Nature of operations and going concern (note 1)
Notes receivable (note 4)
Commitments and contingencies (note 20)
Subsequent events (note 21)

Approved by the Board:

(Signed) "Robin Dow"
Director

(Signed) "Paul Rapello"
Director

See Notes to the Consolidated Financial Statements

Wedge Energy International Inc.
Consolidated Statements of Loss, Comprehensive Loss and Deficit
For the years ended December 31

	2009	2008
REVENUE		
Petroleum and natural gas sales	**$ 28,367**	$ 201,712
Less: royalties	**(10,182)**	(70,103)
Interest	**925**	-
	19,110	131,609
EXPENSES		
Production costs	**18,906**	78,688
General and administration	**159,615**	742,649
Depletion, depreciation, and accretion	**250,681**	1,188,168
Impairment on notes receivable (note 4)	**463,800**	393,935
Stock-based compensation	**41,690**	303,695
Flow-through related tax & obligations (note 5)	**90,000**	345,533
Bad debts expense	**-**	45,692
Gain on foreign exchange	**(14,921)**	(10,365)
	1,009,771	3,087,995
Loss before income taxes	**(990,661)**	(2,956,386)
Future income tax expense (note 11)	**37,800**	107,975
Net loss and comprehensive loss	**(1,028,461)**	(3,064,361)
Deficit, beginning of year	**(8,983,735)**	(5,919,374)
Deficit, end of year	**$(10,012,196)**	$ (8,983,735)
Loss per share - basic & diluted	**$ (0.04)**	$ (0.14)
Shares outstanding - weighted average (note 14)	**24,893,398**	21,205,066

See Notes to the Consolidated Financial Statements

Wedge Energy International Inc.
Consolidated Statements of Cash Flows
For the years ended December 31

	2009	2008
Operating activities		
Net loss for the year	**$ (1,028,461)**	$ (3,064,361)
Add (deduct) items not involving cash:		
Depletion, depreciation, and accretion	**250,681**	1,188,168
Impairment on notes receivable	**463,800**	393,935
Stock-based compensation	**41,690**	303,695
Future income tax expense	**37,800**	107,975
Interest expense (shares issued in lieu of cash)	**6,750**	-
Flow-through related tax & obligations	**90,000**	345,533
	(137,740)	(725,055)
Changes in non-cash working capital (note 13)	**45,512**	554,473
	(92,228)	(170,582)
Investing activities		
Expenditures on property and equipment	**-**	(473,430)
Proceeds on disposal of property and equipment	**152,000**	-
Advances on notes receivable	**(463,800)**	(393,935)
Changes in non-cash working capital (note 13)	**-**	40,052
	(311,800)	(827,313)
Financing activities		
Proceeds from issuance of share capital	**157,500**	160,000
Proceeds from issuance of convertible debt	**270,000**	-
	427,500	160,000
Increase (decrease) in cash during year	**23,472**	(837,895)
Cash, beginning of year	**14,113**	852,008
Cash, end of year	**$ 37,585**	$ 14,113

See Notes to the Consolidated Financial Statements

1. Nature of Operations and Going Concern

Wedge Energy International Inc. ("Wedge" or the "Company) was incorporated on July 5, 1996 under the Ontario Business Corporations Act. The Company changed its name to Alyattes Enterprises Inc. in 1999, and took its current name on February 1, 2007. The Company is engaged in the business of acquisition, production, and exploration of energy resource assets.

These consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP") with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. As at December 31, 2009, the Company had a shareholders' deficiency of $1,190,996 (December 31, 2008 - $634,445) and a working capital deficiency of $1,190,996 (December 31, 2008 - $1,254,055).

The Company failed to incur $494,172 and $135,000 of the required expenditures related to flow-through shares issued in 2007 and 2008, respectively. Any potential tax penalties and interest have been accrued in the financial statements with respect to this flow-through issue based on management's estimates. Subsequent to year-end, the Company received waivers from all the investors to accept shares for the shortfall of renouncement of flow-through expenditures.

The Company's continuation as a going concern is dependent upon its ability to obtain additional financing as required through issuing shares, possible sale of assets and to attain profitability from operations. The Company is pursuing additional financing through public and private equity, debt instruments and collaborative arrangements with potential partners. In the event the Company is unable to arrange additional financing, the Company's ongoing operations would be negatively impacted.

These consolidated financial statements do not include any adjustments relating to the amount and classification of the carrying value of assets and liabilities that might be necessary should the Company be unable to continue in business.

2. Significant accounting policies

These financial statements have been prepared in accordance with Canadian GAAP. Because a precise determination of many assets and liabilities is dependant on future events, the preparation of financial statements necessarily involves the use estimates and approximations. Accordingly, actual results could differ from those estimates. The consolidated financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized below:

a) Consolidation & Joint Venture - The consolidated financial statements include the accounts of Wedge and its wholly owned subsidiary, Wedge Energy Inc. All significant inter-company balances and transactions are eliminated upon consolidation. Interests in joint ventures related to exploration and production activities are accounted for by the proportionate consolidation method. Under this method, Wedge includes in its accounts its proportionate share of assets, liabilities, revenues and expenses.

b) Revenue recognition - Revenue associated with the sales of petroleum and natural gas production owned by the Company is recognized when the title passes from the Company to its customers. Transportation costs are included in production costs as these amounts are not material to disclose separately

c) Cash - this includes balances with banks and term deposits with maturities of three months or less.

d) Property and equipment

   I. Capitalized costs - the Company follows the full cost method of accounting for its petroleum and natural gas operations. Under this method, all costs related to the exploration for and development of petroleum and natural gas reserves are capitalized. Costs include lease acquisition costs, geological and geophysical expenses and drilling costs of productive and non-productive wells and equipment costs. Proceeds from the sale of properties are applied against capitalized costs and gains or losses are not recognized unless such sale would alter the depletion rate by more then 20%.

   II. Depletion & Depreciation - depletion of capitalized costs is calculated using the unit-of-production method based upon estimated proven reserves as determined by independent engineers. Administrative assets are depreciated on a declining balance basis over its estimated useful life at rates varying from 20% to 45% annually.

   III. Ceiling test - this is a two-step test performed at least annually to assess the carrying value of oil and gas assets. A cost center is defined on a country by country basis, and is tested for recoverability using undiscounted future cash flows from proved reserves and forward indexed commodity prices, adjusted for contractual obligations and product quality differentials. A cost center is written down to its fair value when its carrying value, less the lower of cost and market value of unproved properties, is in excess of the related undiscounted cash flows. If the carrying value is not fully recoverable, the amount of impairment is measured by comparing the carrying amounts of the capital assets, less the lower of cost and market value of unproved properties, to an amount equal to the estimated net present value of future cash flows from proved plus probable reserves. This impairment in the carrying amount would be recognized and charged to current operations in depletion, depreciation, and accretion.

e) Asset retirement obligations – the Company recognizes the fair value of a liability for an asset retirement obligation in the period in which it is incurred and records a corresponding increase in the carrying value of the related long-lived asset. The fair value is determined through a review of engineering studies, industry guidelines, and management's estimate on a site-by-site basis. The liability is subsequently adjusted for the passage of time, and is recognized as an accretion expense in the income statement. The liability is also adjusted due to revisions in costs of timing of expenditure and payments are deducted from the liability as incurred.

f) Future income taxes - the Company follows the liability method of accounting for future income taxes. Under this method, future tax assets and liabilities are determined based on differences between financial reporting and income tax basis of assets and liabilities, and are measured using substantively enacted tax rates that will be in effect when the differences are expected to reverse. A valuation allowance is recorded against a future income tax asset if it is more likely than not that the asset will not be realized.

g) Convertible debt – the convertible debt issued by the Company is separated into liability and equity components and presented separately on the balance sheet. The Company determines the carrying amount of the financial liability by discounting the stream of future payments at the prevailing market rate for a similar liability that does not have an associated equity component. The carrying amount of the equity instrument represented by the option to convert the instrument into common shares is then determined by deducting the carrying amount of the financial liability from the amount of the compound instrument as a whole. The liability is subsequently adjusted for the passage of time, and is recognized as an accretion expense in the income statement. The Company recognizes all related transaction costs as expenses in the period incurred.

h) Stock-based compensation - the Company grants options to employees, directors, and consultants to purchase common shares at a specified price. The fair value of such options is estimated at the time of grant using the Black-Scholes pricing model and is recorded as stock-based compensation expense with a corresponding amount recorded as contributed surplus. Upon the exercise of stock options, the consideration paid together with the amount previously recognized in contributed surplus is recorded as an increase in share capital. In the event that options expire, previously recognized expenses associated with such stock options are not reversed. The Company accounts for forfeitures as they occur.

i) Warrants - the Company issues warrants to purchase common shares when issuing common share units. The fair value of such warrants is estimated at the time of issuance using the Black-Scholes pricing model and is recorded as warrants in the equity section of the balance sheet and corresponding value is reduced from share capital from the common share issuance. Upon the exercise of warrants, the consideration paid together with the amount previously recognized in warrants is recorded as an increase in share capital. In the event that warrants expire, previously recognized warrant value is adjusted through contributed surplus. In addition, the Company issues broker warrants as compensation related financing activities.

j) Financial Instruments - the Company adopted CICA Handbook Section 3855 which establishes standards for recognizing and measuring financial assets, financial liabilities, and non-financial derivatives. It requires that financial assets and financial liabilities, including derivatives, be recognized on the balance sheet when the Company becomes a party to the contractual provisions of the financial instrument or non-financial derivative contract. Under this standard, all financial instruments are required to be measured at fair value upon initial recognition except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as held for trading, available for sale, held to maturity, loans or receivables, or other financial liabilities. Financial assets and financial liabilities held for trading are measured at fair value with changes in those fair values recognized in net earnings. Financial assets held to maturity, loans and receivables, and other financial liabilities are measured at amortized cost using the effective interest method of amortization. Investments in equity instruments classified as available-for-sale that do not have a quoted market price in an active market are measured at cost.

k) Comprehensive income (loss) and accumulated other comprehensive income (loss) - The Company adopted CICA Handbook Section 1530 "Comprehensive Income" which consists of net earnings and other comprehensive income ("OCI"). OCI represents changes in shareholders' equity during a period arising from transactions and changes in prices, markets, interest rates, and exchange rates. OCI includes unrealized gains and losses on financial assets classified as available-for-sale, unrealized translation gains and losses arising from self-sustaining foreign operations net of hedging activities and changes in the fair value of the effective portion of cash flow hedging instruments. The Company did not have any other comprehensive income for the years ended December 31, 2009 and 2008.

l) Hedges - The Company adopted CICA Handbook Section 3865 provides alternative treatments to Section 3855 for entities which choose to designate qualifying transactions as hedges for accounting purposes. It replaces and expands on Accounting Guideline 13 "Hedging Relationships", and the hedging guidance in Section 1650 "Foreign Currency Translation" by specifying how hedge accounting is applied and what disclosures are necessary when it is applied. The Company has elected not to apply hedge accounting to its financial instruments.

m) Foreign Currency - the Company translates foreign currency denominated transactions and the financial statements of integrated foreign operations using the temporal method. Monetary assets and liabilities are translated at year-end rates. Non-monetary assets and liabilities are translated at rates in effect on the dates of the transactions. Income and expenses are translated at average rates in effect during the year with the exception of amortization, which is translated at historic rates. Exchange gains and losses on translation of monetary assets and liabilities are reflected in income immediately.

n) Measurement uncertainty and use of estimates - the preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenue and expenses during the period. Key areas where management has made complex or subjective judgments, when matters that are inherently uncertain include but are not limited to depletion, depreciation & accretion, asset impairment, litigation, asset retirement obligations, financial instruments, stock-based compensation, and income taxes. By their nature, these estimates are subject to measurement uncertainty and may impact the consolidated financial statements of future periods. These estimates and assumptions are reviewed periodically and as adjustments become necessary, they are reported in earnings in the periods they become known.

o) Flow-through shares - share capital includes flow-through shares issued pursuant to certain provisions of the Income Tax Act in Canada (the "Act"). The Act provides that, where the share issuance proceeds are used for exploration and development expenditures, the related income tax deduction may be renounced to subscribers. Accordingly, these expenditures are not an income tax deduction to the Company. Share capital is reduced and a future income tax liability is recorded for the estimated value of the renounced expenditures.

p) Per share amounts - the basic per share amounts are calculated using the weighted average number of shares outstanding during the year. Weighted average number of shares is determined by relating the portion of time within the reporting period that common shares have been outstanding to the total time in that period. The Company uses the treasury stock method to determine the dilutive effect of stock options and other dilutive instruments. Diluted calculations reflect the weighted average incremental common shares that would be issued upon exercise of dilutive options assuming proceeds would be used to repurchase shares at average market prices for the period. Anti-dilutive options are not included in the calculation.

q) Share issue costs - costs incurred on the issue of the Company's shares are charged directly to share capital and are net of applicable future income tax benefits.

r) Capital disclosures - the Company discloses the objectives, policies and processes for managing capital, the nature of externally imposed capital requirements, how the requirements are incorporated into the Company's management of capital, whether the requirements have been complied with, or consequence of noncompliance and an explanation of how the Company is meeting its objectives for managing capital.

s) Changes in accounting policies: In 2009, the Company adopted the following standards:

I. Section 3064 - Goodwill and Intangible Assets which replaces the previous goodwill and intangible asset standard and revises the requirement for recognition, measurement, presentation and disclosure of intangible assets. The adoption of this standard had no impact on the Company's financial statements.

II. EIC-173 Credit Risk and the Fair Value of Financial Assets and Financial Liabilities which clarifies that an entity must consider its own risk and the credit risk of the counterparty when measuring the fair value of derivative instruments. EIC-173 had no impact on the Company's financial statements.

III. Amendments to Section 3855 Financial Instruments - Recognition and Measurement. The changes bring greater consistency between Canadian GAAP, IFRS and US GAAP regarding the timing of impairment recognition for debt instruments. The amendments allow more debt instruments to be classified as loans and receivables. In addition, the amendments require reversal of previously recognized impairment losses on available-for-sale financial assets in specified circumstances and require that loans and receivables that an entity intends to sell immediately or in the near term be classified as held for trading. The transitional provisions are complex and are accompanied by disclosure requirements to explain any reclassifications made on adopting the amendments. The amendments had no impact on the Company's financial statements.

IV. Amendments to Section 3862 Financial Instruments - Disclosures. The amendments require improved and consistent disclosures about fair value measurements of financial instruments and liquidity risk. These amendments require a three level hierarchy that reflects the significance of the inputs used in making the fair value measurements. Fair values of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Level 2 valuations are calculated using inputs other than quoted prices for which all significant outputs are observable, either directly or indirectly. Level 3 valuations are based on inputs that are unobservable and significant to the overall fair value measurement.

t) Pending accounting pronouncements:

I. **International Financial Reporting Standards (“IFRS”)** - the Canadian Accounting Standards Board has confirmed that the use of IFRS will be required in 2011 for publicly accountable profit-oriented enterprises, which are responsible to large or diverse groups of stakeholders. The official changeover date is fiscal years beginning on or after January 1, 2011. The Company will be required to provide comparative previous fiscal year information under IFRS in interim and annual financial statements. While the Company has begun assessing its adoption of IFRS, the impact of this transition cannot be reasonably estimated at this time.

II. **Business combinations and non-controlling interests:** In January 2009, the AcSB issued Section 1582 - Business Combinations, Section 1601 - Consolidations and Section 1602 - Non-controlling Interests. Section 1582 replaces Section 1581 Business Combinations and provides the Canadian equivalent to IFRS 3 - Business Combinations. Section 1601 and Section 1602 replace Section 1600 - Consolidated Financial Statements. Section 1602 provides the Canadian equivalent to International Accounting Standard (“IAS”) 27 - Consolidated and Separate Financial Statements, for non-controlling interests. These standards are effective January 1, 2011. The adoption of these standards is not expected to have an impact on the Company’s financial statements.

III. **Equity:** In August 2009, the AcSB issued amendments to Section 3251 - Equity as a result of issuing Section 1602 - Non-controlling Interests. The amendments require non-controlling interests to be recognized as a separate component of equity. The amendments apply only to entities that have adopted Section 1602 and are not expected to have an impact on the Company’s financial statements.

IV. **Comprehensive Revaluation of Assets and Liabilities:** In August 2009, the AcSB issued amendments to Section 1625 - Comprehensive Revaluation of Assets and Liabilities for consistency with new Section 1582 - Business Combinations. The amendments apply prospectively to comprehensive revaluations of assets and liabilities occurring in fiscal years beginning on or after January 1, 2011 and are not expected to have an impact on the Company’s financial statements.

V. **Accounting changes:** In June 2009, the AcSB issued an amendment to Section 1506 - Accounting Changes which is effective for fiscal years beginning on or after July 1, 2009. The amendment excludes from the scope of Section 1506 changes in accounting policies upon the complete replacement of an entity’s primary basis of accounting, as will occur when an entity adopts IFRS.

3. Property and equipment

The Company’s property and equipment is summarized as follows:

December 31, 2009	Cost	Accum. Depletion & Depreciation	Net book Value
Petroleum & natural gas assets	$ -	$ -	$ -
Office equipment	-	-	-
	$ -	$ -	$ -

December 31, 2008	Cost	Accum. Depletion & Depreciation	Net book Value
Petroleum & natural gas assets	$ 4,191,540	$ (3,565,665)	$ 625,875
Office equipment	23,132	(11,345)	11,787
	$ 4,214,672	$ 3,577,010	$ 637,662

In 2008, the Company recorded an impairment of $812,036 for producing and non-producing properties based on results of the ceiling test performed using independent engineering report. Cost of undeveloped land of $103,875 was excluded from the depletion calculation. The impairment amounts were included in the depletion, depreciation and accretion expense and were calculated using the carrying values of the related assets and liabilities.

In February 2009, the Company sold certain petroleum and natural gas properties for consideration of $103,875 (which was comprised of $50,000 cash and cancellation of a payable of $53,875).

In December 2009, the Company sold certain producing petroleum assets for $105,000. The proceeds of this sale (less selling costs of $3,000) were used to make cash payment in relation to a creditor settlement.

In 2009, the Company recorded impairments of $178,691 related to the petroleum assets sold and $2,364 related to the disposal of office equipment. These amounts were included in the depletion, depreciation and accretion expense and were calculated using the carrying values of the related assets and liabilities.

4. Notes receivable

Since January 2007, the Company received promissory notes on loans advanced to support legal proceedings to confirm ownership of charter capital in Kazakhstan by an unrelated party (the "Borrower"). The Company will hold the right to purchase a 70% interest in the property at a purchase price equal to the loan advances, and to pay 70% of initial license exploration expenses; or to remain in a secured position, with the right in default of repayment to seize 70% of the Borrower's holding in the license.

The following table summarizes the principal amount of the notes receivable for the year ended December 31:

	2009	2008
Cumulative advances	**$ 2,390,314**	$ 1,926,514

During 2009, the Company advanced $463,800 (2008 - $393,935) for the lawsuit related to the Kazakhstan oil and gas property. Due to the uncertainty of the resolution, the Company recognized impairment in the full amount of the notes advanced during the year. The advances bear annual interest of 5%, which has not been accrued due to uncertainty of collection.

5. Flow-through related tax and obligations

The Company did not incur $494,172 and $135,000 of expenditures pursuant to flow-through shares issued in 2007 and 2008 respectively. According to the share agreement, the Company is required to pay any resulting tax, interest, and penalties on behalf of the investor of the shares if the flow-through commitments are not met. Any potential tax penalties and interest have been accrued in the financial statements with respect to this flow-through issue based on management's estimates.

Subsequent to year-end, the Company received waivers from all the investors to accept shares for the shortfall of renouncement of flow-through expenditures.

The following schedule summarizes the flow-through related obligations as at December 31:

	2009	2008
Part XII.6 tax – 2007 renouncement shortfall	**$ 90,709**	$ 90,709
Part XII.6 tax – 2008 renouncement shortfall	**27,900**	-
Total Part XII.6 tax	**118,609**	90,709
Estimated 2007 investor obligations	**254,824**	254,824
Estimated 2008 investor obligations	**62,100**	-
Total estimated investor obligations	**316,924**	254,824
Total Flow-through related obligations	**$ 435,533**	$ 345,533

6. Convertible Debt

In October 2009, the Company issued $270,000 of convertible notes ("the Notes") which mature on October 9, 2010. The Notes are convertible at the option of the holder into 5,400,000 common shares at a price of $0.05 per share. Interest on the principal amount shall be at 10% per annum, payable quarterly in advance. The Company has the right to pay the interest on the Notes with common shares.

The following summarizes the convertible debt for the years ended December 31:

	2009	2008
Issuance of convertible debt (principal)	**$ 270,000**	-
Allocation to equity value of convertible debt	**(14,700)**	
Allocation to debt value of convertible debt	**255,300**	-
Accretion	**3,675**	-
Liability component - convertible debt	**$ 258,975**	$ -

7. Asset retirement obligations

The future asset retirement obligations were estimated by management based on the Company's working interest in its wells and facilities, estimated costs to remediate, reclaim and abandon the wells and facilities and the estimated timing of the costs to be incurred in future periods. The Company has sold its interest in the producing wells during 2009. The asset retirement obligations was accreted up to the time of sale and adjusted through carrying value of the petroleum properties before recording the impairment on disposal of these assets.

The payments were expected to be incurred starting in 2014 based upon management's estimate of the life of the wells and facilities. The Company used a credit adjusted risk-free rate of 8% (December 31, 2008 - 8%) and an inflation rate of 2% to calculate the present value of these asset retirement obligations.

The following reconciles the changes in the asset retirement obligations for the years ended December 31:

	2009	2008
Balance, beginning of year	**$ 55,852**	$ 50,273
Accretion	**3,351**	5,579
Disposal of related petroleum assets	**(59,203)**	
Balance, end of year	**$ -**	$ 55,852

8. Share Capital

The following table shows the transactions in the share capital since December 31, 2007:

Authorized
Unlimited number of common voting shares
Unlimited number of preferred non-voting shares

	Number	Amount
Issued		
Balance, December 31, 2007	**21,049,230**	**$ 7,062,238**
Penalty Issuance (i)	360,000	-
Private placement (ii)	125,000	11,850
Flow-through shares (iii)	425,000	40,290
Flow-through shares (iv)	250,000	24,575
Tax effect of flow-through share renouncement (v)	-	(192,000)
Balance, December 31, 2008	**22,209,230**	**6,946,953**
Private placement (vi)	2,400,000	112,800
Private placement (vii)	1,150,000	24,035
Private placement (viii)	1,000,000	21,800
Issued to creditors (ix)	651,798	181,271
Issued for interest payment on convertible debt (x)	135,000	6,750
Tax effect of flow-through share renouncement (xi)	-	-
Balance, December 31, 2009	**27,546,028**	**$ 7,293,609**

2008 share capital transactions:

i) In June 2008, the Company issued 360,000 common shares in connection with the penalty for non-completion of an “Exit Event” related to a private placement that occurred in October 2006.

ii) In July 2008, the Company completed a private placement of 125,000 units at $0.20 per unit. Each unit comprised of one common share and one warrant. Each warrant entitles the holder to purchase one common share at an exercise price of $0.30 until July 15, 2010. The proceeds of $25,000 had $11,850 allocated to common shares and $13,150 allocated to the warrants, which was based on the Black-Scholes pricing model with the assumptions of risk-free interest rate of 3.18% and a volatility of 118%.

iii) In July 2008, the Company completed a private placement of 425,000 flow-through units at $0.20 per unit. Each unit comprised of one flow-through common share and one warrant. Each warrant entitles the holder to purchase one common share at an exercise price of $0.30 until July 15, 2010. The proceeds of $85,000 had $40,290 allocated to common shares and $44,710 allocated to the warrants, which was based on the Black-Scholes pricing model with the assumptions of risk-free interest rate of 3.18% and a volatility of 118%.

iv) In August 2008, the Company completed a private placement of 250,000 flow-through units at $0.20 per unit. Each unit comprised of one flow-through common share and one warrant. Each warrant entitles the holder to purchase one common share at an exercise price of $0.30 until July 15, 2010. The proceeds of $50,000 had $24,575 allocated to common shares and $25,425 allocated to the warrants, which was based on the Black-Scholes pricing model with the assumptions of risk-free interest rate of 3.18% and a volatility of 118%.

v) Tax effect of $192,000 relates to exploration expenditures of $650,828 renounced in February 2008 related to flow-through shares issued in the previous year.

2009 share capital transactions:

vi) In April 2009, the Company completed a private placement of 2,400,000 non-brokered units at $0.05 per unit. Each unit comprised of one common share and one common share warrant. Each warrant entitles the holder to purchase one common share at an exercise price of $0.10 until May 1, 2012. The proceeds of $120,000 had $112,800 allocated to common shares and $7,200 allocated to the warrants, which was based on the Black-Scholes pricing model with the assumptions of risk-free interest rate of 3.18% and a volatility of 118%. Of the issuance, $70,000 was made of amounts owing to the CEO of the Company that was converted into units at the $0.05 issue price.

vii) In June 2009, the Company completed a private placement of 1,150,000 non-brokered units at $0.05 per unit. Each unit comprised of one common share and one common share warrant. Each warrant entitles the holder to purchase one common share at an exercise price of $0.10 until May 1, 2012. The proceeds of $57,500 had $24,035 allocated to common shares and $33,465 allocated to the warrants, which was based on the Black-Scholes pricing model with the assumptions of risk-free interest rate of 3.18% and a volatility of 118%

viii) In August 2009, the Company completed a private placement of 1,000,000 non-brokered units at $0.05 per unit. Each unit comprised of one common share and one common share warrant. Each warrant entitles the holder to purchase one common share at an exercise price of $0.10 until May 1, 2012. The proceeds of $50,000 had $21,800 allocated to common shares and $28,200 allocated to the warrants, which was based on the Black-Scholes pricing model with the assumptions of risk-free interest rate of 3.18% and a volatility of 118%.

ix) In 2009, the Company issued 651,798 shares in settlement of $181,271 to certain creditors.

x) In October 2009, the Company issued 135,000 shares to cover the $6,750 interest payment pursuant to the convertible debt agreement (as described in note 6).

xi) In 2009, the Company did not renounce the $135,000 of required flow-through expenditures, the tax effect of $37,800 was charged to future income tax expense (see note 11).

Shares held in escrow

As of December 31, 2009, the number of common shares that are held in escrow is 1,743,750 (December 31, 2008 - 3,606,250). These shares will be released from escrow in equal installments of 581,250 on March 1, 2010, September 1, 2010, and March 1, 2011.

9. Contributed surplus

The following table reconciles the Company's contributed surplus balance for the years ended December 31:

	2009	2008
Balance, beginning of year	**$ 627,956**	$ 65,652
Stock-based compensation	**41,690**	303,695
Warrants expired	**270,650**	258,609
Balance, end of year	**$ 940,296**	$ 627,956

10. Warrants

The following table reconciles the warrants since December 31, 2007:

	Number	Amount
Balance, December 31, 2007	**8,178,750**	**$ 949,705**
Warrants issued during 2008 year:		
July 2008 with share units issued	550,000	57,860
August 2008 with share units issued	250,000	25,425
	800,000	83,285
Warrants expired during 2008	(1,700,000)	(258,609)
Balance, December 31, 2008	**7,278,750**	**$ 774,381**
Warrants issued during 2009 year:		
April 2009 with share units issued	2,400,000	7,200
June 2009 with share units issued	1,150,000	33,464
August 2009 with share units issued	1,000,000	28,200
October 2009 with convertible debt	5,400,000	-
	9,950,000	68,864
Warrants expired during 2009	(1,293,750)	(270,650)
Balance, December 31, 2009	**15,935,000**	**$ 572,595**

In April 2009, the Company re-priced and extended the terms of certain warrants. Warrants originally priced to be exercised at $0.75 were re-priced to $0.35 and $0.30 were re-priced to $0.15. Warrants originally priced at $0.75, which originally expired September 1, 2009 and November 15, 2009 were extended to September 1, 2011 and November 15, 2011, respectively. This amendment did not have a material affect on the consolidated financial statements.

In October 2009, the Company issued to the investors of the convertible debt, 5,400,000 warrants entitling the holder thereof to purchase common shares at a price of $0.10 per common share until October 9, 2011. The attributed equity value on the convertible debt issuance with warrants was $14,700, which is recorded in the equity section of the balance sheet.

As of December 31, 2009, the details of warrants outstanding are as follows:

	Exercise Price	Expiry	Number	Attributed Value
September 2007 warrants	$ 0.35	1-Sep-11	300,000	25,122
October 2007 warrants	$ 0.35	1-Sep-11	4,060,000	329,548
December 2007 warrants	$ 0.35	15-Nov-11	825,000	65,775
July 2008 warrants	$ 0.15	15-Jul-10	550,000	57,860
August 2008 warrants	$ 0.15	15-Jul-10	250,000	25,425
April 2009 warrants	$ 0.10	1-May-12	2,400,000	7,200
June 2009 warrants	$ 0.10	1-May-12	1,150,000	33,465
August 2009 warrants	$ 0.10	1-May-12	1,000,000	28,200
October 2009 warrants	$ 0.10	9-Oct-11	5,400,000	-
Total warrants			15,935,000	$ 572,595
Weighted average exercise price of warrants	$ 0.18			
Weighted average life of warrants (years)		1.8		

11. Future Income Taxes

The components of the future income tax asset as at December 31 are as follows:

	2009	2008
Property and equipment	**$ 701,185**	$ 699,603
Share issue costs	**45,519**	68,279
Non-capital losses	**1,548,571**	1,316,699
Valuation allowance	**(2,295,275)**	(2,046,781)
Future income tax asset	**$ -**	$ 37,800

The income tax expense differs from that expected by applying the current tax rates for the following reasons:

	2009	2008
Net loss before taxes	**$ 990,661**	$ 2,956,386
Current income tax rates	**29.0%**	29.5%
Expected tax recovery	**(287,292)**	(872,134)
Change in provision:		
Flow-through related obligations	**26,100**	86,383
Stock based compensation	**12,090**	75,924
Difference between current and future rates	**34,359**	133,037
Renouncement adjustments	**-**	18,188
Other adjustments	**4,049**	(10,183)
Change in valuation allowance	**248,494**	676,760
Future income tax expense	**$ 37,800**	$ 107,975

The Company has non-capital losses for income tax purposes of approximately $ 6.2 million, which will expire between 2025 and 2029.

12. Stock options

The following table reconciles the Company's stock options for the years ended December 31:

	2009	2008
Balance, beginning of year	**2,000,000**	-
Stock options issued	**1,100,000**	2,000,000
Stock options expired / forfeited	**(650,000)**	-
Balance, end of year	**2,450,000**	2,000,000

In April 2008, the Company issued 1,300,000 options to officers and employees. The value to this stock-based compensation was $190,593, which was based on the Black-Scholes pricing model with the assumptions of risk-free interest rate of 3.18% and a volatility of 118%.

In July 2008, the Company issued 700,000 options to officers and employees. The value to this stock-based compensation was $113,102, which was based on the Black-Scholes pricing model with the assumptions of risk-free interest rate of 3.18% and a volatility of 118%.

In January 2009, the Company issued 200,000 options to officers and employees. The value to this stock-based compensation was $7,580, which was based on the Black-Scholes pricing model with the assumptions of risk-free interest rate of 3.00% and a volatility of 118%.

In August 2009, the Company issued 900,000 options to officers and employees. The value to this stock-based compensation was $34,110, which was based on the Black-Scholes pricing model with the assumptions of risk-free interest rate of 3.00% and a volatility of 118%.

As of December 31, 2009, the details of stock options outstanding are as follows:

	Exercise Price	Remaining Life (years)	Expiry	Number
April 2008 stock options	$ 0.50	3.2	15-Mar-13	750,000
July 2008 stock options	$ 0.25	3.6	29-Jul-13	600,000
January 2009 stock options	$ 0.10	4.1	30-Jan-14	200,000
August 2009 stock options	$ 0.10	4.7	31-Aug-14	900,000
Total stock options				2,450,000
Weighted average exercise price of stock options	$ 0.26			
Weighted average life of stock options (years)		3.9		

13. Changes in Non-cash Working Capital

The following table reconciles the change in non-cash working capital for the years ended December 31:

		2009		2008
Accounts receivable	**$**	**15,292**	$	123,466
Prepaid expenses		**12,499**		92,966
Accounts payable & accrued liabilities		**17,721**		378,093
	$	**45,512**	$	594,525
Allocated to:				
Operating activities	**$**	**45,512**	$	554,473
Investing activities		**-**		40,052
	$	**45,512**	$	594,525
Supplemental cash flow information				
Interest paid	**$**	**-**	$	-
Income taxes paid	**$**	**-**	$	-

14. Per share amounts

Per share calculations are based on the weighted average number of common shares outstanding during year ended December 31, 2009 and 2008 of 24,893,398 and 21,205,066, respectively. Diluted per share amounts have not been disclosed, as the effects of share options and warrants are anti-dilutive.

15. Related party transactions

Related party transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration agreed to by the related parties.

During the year ended December 31, 2009, the Company was charged $ nil (2008 - $163,000) for accounting, administrative fees and software solutions by a corporation of which a director of the Company is an officer. As of December 31, 2009, $149,000 (December 31, 2008 - $173,000) was included in the Accounts payable & accrued liabilities balance.

During the year ended December 31, 2009, the CEO advanced $122,000 (2008 - $15,000) to the Company, of which $70,000 was converted into units in the April 2009 share issuance. This amount is non-interest bearing and has no set repayment terms. As of December 31, 2009, $67,000 (December 31, 2008 - $15,000) of this loan was included in the Accounts payable & accrued liabilities balance.

16. Capital management

The Company's objectives when managing capital are:

- To safeguard its ability to continue as a going concern.
- To maintain appropriate cash on hand to meet ongoing operating costs.
- To invest cash on hand in liquid and highly rated financial instruments.

The Company has been funded by the following forms of capital as at December 31:

	2009	2008
Share capital	**$ 7,293,609**	$ 6,946,953
Convertible debt (liability & equity components)	**270,000**	-
	$ 7,563,609	$ 6,946,953

The Company manages the capital structure and makes adjustments in light of changes in economic conditions and the risk characteristics of the underlying assets.

17. Financial instruments

The Company's financial instruments are cash, accounts receivable, notes receivable, accounts payable & accrued liabilities, and convertible debt. The amounts reflected in the balance sheet are carrying amounts and approximate their fair values due to the short-term nature and negligible credit losses. The Company's fair values of assets and liabilities are considered to be classified as Level 1 since their values are determined by reference to quoted prices in active markets for identical assets and liabilities. These financial instruments are classified as follows:

- Cash – held for trading
- Accounts receivable – loans and advances
- Notes receivable – loans and advances
- Accounts payable & accrued liabilities – other financial liability
- Convertible debt – other financial liability

Certain risks that the Company is exposed to in normal course of operations are described as follows:

a) Credit risk
Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company's accounts receivable relates to GST input tax credits and the notes receivable is fully impaired for accounting purposes, therefore the credit risk is minimal.

b) Interest rate risk
Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company does not use derivative instruments or hedges to manage risks as the interest rate risk is low.

c) Currency risk
Currency risk is the risk that fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company's exposure to currency risk is limited because all monetary assets and liabilities in Canadian dollars. In addition, the carrying value of the notes receivable is nil due to the impairment taken for uncertainty of collection.

d) Liquidity risk
Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The liquidity risk is reduced since the interest on the convertible debt can paid in the form of shares based on the terms of the agreement. The Company prepares expenditure budgets, which are regularly monitored and updated as considered necessary. To facilitate its expenditure program, the Company raises funds through share issuances and convertible debt.

e) Market risk
Market risk is the risk related to the prices of commodities and the condition of financial markets. As capital is required to fund operations, equity market fluctuations would have a material impact on the financial condition of the Company.

f) Fair values of financial assets and liabilities
Financial instruments consist of cash, accounts receivable, notes receivable, accounts payable & accrued liabilities, and convertible debt. At December 31, 2009, there are no significant differences between the carrying amounts reported on the balance sheet and their estimated fair values.

18. Segmented information

All the 2008 and 2009 operations and financial information related only to Canada as this is the only region that the Company has a permanent establishment for its oil and gas operations. In 2008, the Company disclosed Kazakhstan related amounts for the notes receivable. The Company is trying to secure a land position in Kazakhstan but no operations or assets are in this region at this time.

19. Comparative figures

Certain comparative figures have been reclassified to conform to the Company's current year presentation.

20. Commitments and contingencies

The Company failed to incur $494,172 and $135,000 of the required expenditures related to flow-through shares issued in 2007 and 2008, respectively. Any potential tax penalties and interest have been accrued in the financial statements with respect to this flow-through issue based on management's estimates. Subsequent to year-end, the Company received waivers from all the flow-through investors to accept shares in exchange for the renouncement shortfall. The Company no longer needs to incur these flow-through expenditures and is filing the necessary documents with the tax authorities.

21. Subsequent events

On January 26, 2010, the Company issued $770,000 convertible notes, which mature on January 26, 2011. These are convertible into 77,000,000 common shares at a price of $0.01 per share. The Company has issued to the investors 33,900,000 warrants entitling the holder thereof to purchase common shares until January 26, 2012 at a price of $0.02 per common share. Interest on the principal amount shall be at 10% per annum, payable quarterly in advance. The Company has the right to effectuate the payment of interest in common shares of the Company. Of the total proceeds, $270,000 will be used to repurchase convertible notes of the Company issued in October 2009, which the investors waived the 5,400,000 warrants related to this issuance.

On January 28, 2010, Company appointed three new directors: Mr. Paul S. Rapello, Mr. Darren Devine and Mr. James Passin. The new directors will be joining remaining directors Mr. Robin Dow and Mr. Kevin Rivers as the new board of directors for Wedge.

On March 5, 2010, the Company announced that it had issued 1,080,000 shares to 4 individuals for waivers in relation to the 2007 & 2008 Flow-through share renouncements.

On March 19, 2010, the Company announced the grant of 400,000 stock options to directors and consultants of the Company.

On March 25, 2010, the Company announced that Kevin Rivers has resigned from the Board of Directors effective immediately, to attend to other significant business interests.