Wedge Energy International Inc.
Consolidated Financial Statements
Years ended December 31, 2008 and 2007

Management's Report to the Shareholders

To the Shareholders of Wedge Energy International Inc.

The accompanying consolidated financial statements of Wedge Energy International Inc. ("Wedge" or the "Company") are the responsibility of management. The consolidated financial statements have been prepared by management 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 or unauthorized use and the financial records provide reliable information for the preparation of the financial statements.

Mackay LLP was appointed by the Board of Directors ("Board") to audit the consolidated financial statements in accordance with Canadian generally accepted auditing standards. Their report is presented with the financial statements.

The 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. The financial statements have been approved by the Board on the recommendation of the Audit Committee.

(signed)
Robin Dow
Chief Executive Officer
August 17, 2009

CHARTERED ACCOUNTANTS

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Auditors' Report

To the Shareholders of Wedge Energy International Inc.

We have audited the consolidated balance sheets of Wedge Energy International Inc. as at December 31, 2008 and 2007 and the consolidated statements of loss, comprehensive loss and deficit and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall 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, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(signed) "Mackay LLP"

Calgary, Canada
August 14, 2009

WEDGE ENERGY INTERNATIONAL INC.
Consolidated Balance Sheets
As at December 31

	2008	2007
Assets		
Current		
Cash and cash equivalents	$ 14,113	$ 852,008
Accounts receivable	23,636	147,102
Prepaid expenses	12,499	105,465
	50,248	1,104,575
Property and equipment (note 5)	637,662	1,346,820
Future income taxes (note 8)	37,800	337,775
	$ 725,710	$ 2,789,170
Liabilities		
Current		
Accounts payable and accrued liabilities	$ 958,770	$ 580,677
Part XII.6 tax (note 7)	90,709	-
Flow-through related obligations (note 7)	254,824	-
	1,304,303	580,677
Asset retirement obligations (note 9)	55,852	50,273
	1,360,155	630,950
Shareholders' Equity (Deficiency)		
Share capital (note 10)	6,946,953	7,062,238
Warrants (note 11)	774,381	949,704
Contributed surplus (note 12)	627,956	65,652
Deficit	(8,983,735)	(5,919,374)
	(634,445)	2,158,220
	$ 725,710	$ 2,789,170

Nature of operations and going concern (note 1)
Note receivable (note 6)
Commitments and contingencies (note 21)
Subsequent events (note 22)

On behalf of the Board:

(signed)
"Robin Dow"
Director

(signed)
"Robert Schellenberg"
Director

See accompanying notes to the consolidated financial statements.

WEDGE ENERGY INTERNATIONAL INC.
Consolidated Statements of Loss, Comprehensive Loss and Deficit
For the years ended December 31

	2008	2007
Revenue		
Petroleum and natural gas sales	$ 201,712	$ 60,415
Less: Royalties	(70,103)	(20,648)
Interest	-	44,019
	131,609	83,786
Expenses		
Production costs	78,688	18,926
General and administrative	742,649	981,245
Depletion, depreciation & accretion	1,188,168	1,685,810
Stock-based compensation	303,695	-
Bad debt expense	45,692	-
Loss (gain) on foreign exchange	(10,365)	190,649
Impairment of note receivable (note 6)	393,935	1,471,005
Flow-through related tax, interest and penalties (note 7)	345,533	-
Transaction costs	-	166,406
	3,087,995	4,514,041
Loss before income taxes	(2,956,386)	(4,430,255)
Future income tax expense (reduction) (note 8)	107,975	(378,889)
Net loss and comprehensive loss	(3,064,361)	(4,051,366)
Deficit, beginning of year	(5,919,374)	(1,868,008)
Deficit, end of year	$ (8,983,735)	$ (5,919,374)
Share outstanding - weighted average (note 16)	21,205,066	14,946,529
Loss per share - Basic and diluted	$ (0.14)	$ (0.27)

See accompanying notes to the consolidated financial statements.

WEDGE ENERGY INTERNATIONAL INC.
Consolidated Statement of Cash Flows
For the years ended December 31

	2008	2007
Operating activities		
Net loss	$ (3,064,361)	$ (4,051,366)
Add (deduct) items not involving cash:		
Depletion, depreciation & accretion	1,188,168	1,685,810
Impairment of note receivable	393,935	1,471,005
Stock-based compensation	303,695	-
Unrealized foreign exchange loss on notes receivable	-	105,258
Transactions costs	-	166,406
Interest accrued on note receivable	-	(43,684)
Future income tax expense (reduction)	107,975	(378,889)
Flow-through related tax, interest and penalties (note 7)	345,533	-
	(725,055)	(1,045,460)
Change in non-cash working capital (note 15)	554,473	19,890
	(170,582)	(1,025,570)
Financing activities		
Proceeds from issue of shares and warrants	160,000	4,862,500
Share issue costs	-	(155,634)
Change in non-cash working capital (note 15)	-	10,000
	160,000	4,716,866
Investing activities		
Expenditures on property and equipment	(473,430)	(1,894,209)
Advances of note receivable	(393,935)	(1,532,579)
Transaction costs incurred	-	(47,063)
Change in non-cash working capital (note 15)	40,052	(48,112)
	(827,313)	(3,521,963)
Increase (decrease) in cash and cash equivalents	(837,895)	169,333
Cash and cash equivalents, beginning of year	852,008	682,675
Cash and cash equivalents, end of year	$ 14,113	$ 852,008
Supplemental disclosure of cash flow activities:		
Cash taxes paid	$ Nil	$ Nil
Cash interest paid	Nil	Nil

See accompanying 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 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.

These consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the payment of liabilities in the ordinary course of business. As at December 31, 2008, the Company had a shareholder's deficiency of $634,445 and a working capital deficiency of $1,254,055. In addition, the Company has failed to incur $494,172 of the required expenditures related to flow-through shares issued in 2007 by December 31, 2008. The Company also issued $135,000 of flow-through shares in 2008 which is to be spent on qualifying expenditures by December 31, 2009.

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 ultimately attain profitability from operations. The Company is pursuing additional financing through public or 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 to the point that all operating activities would cease.

The consolidated financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amount and classification of 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 generally accepted accounting principles. 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** - The consolidated financial statements include the accounts of Wedge Energy International Inc. (the "Company"), and its Canadian wholly-owned subsidiary, Wedge Energy Inc. which is inactive. All significant inter-company balances and transactions are eliminated upon consolidation.

b) **Joint venture** -Interests in joint ventures related to exploration and production activities are accounted for proportionately. Under this method, the Company includes in its accounts its proportionate share of assets, liabilities, revenues and expenses.

c) **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 with production costs, as they are not material to show separately.

d) **Cash and cash equivalents** - Includes balances with banks and term deposits with maturities of three months or less.

e) **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 in cost centers on a country-by-country basis. 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 and 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** - The Company performs a two-step test 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 future net cash flows associated with the cost centre's proved reserves. If the carrying value is not fully recoverable, the amount of impairment is measured by comparing the carrying amounts less the lower of cost and market value of unproved properties, to the discounted future net cash flows associated with the cost centre's proved and probable reserves. This impairment in the carrying amount is charged to depletion, depreciation and accretion on the consolidated statements of loss. Reserves are determined pursuant to the Canadian Securities Administrators, National Instruments 51-101 "Standards of Disclosure for Oil and Gas Activities".

f) **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. Actual asset retirement obligations settled during the period reduce the asset retirement liability.

g) **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.

h) **Stock-based compensation** - The Company grants options to employees, directors, and non-employees 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, on a straight-line basis over the vesting period. The fair value of stock options granted to non-employees is re-measured at the earlier of each financial reporting or vesting date, and any adjustment is charged or credited to operations upon re-measurement. 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 options expire, previously recognized warrant value is adjusted through contributed surplus. In addition, the Company issues broker warrants as compensation related financing activities. 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 stock-based compensation in the income statement.

j) **Financial instruments** - Financial instruments are measured at fair value on initial recognition of the instruments, in to one of the following five categories: held-for-trading; loans and receivables; held-to maturity investments; available-for-sale financial assets and other financial liabilities. 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) **Financial instruments** - Cash and cash equivalents are designated as held-for-trading and are measured at fair value. Accounts receivable, note receivable and due from related parties are designated as loans and receivables and are measured at amortized cost using the effective interest method. Accounts payable and accrued liabilities and due to related parties are classified as other liabilities and are measured at amortized cost using the effective interest method.

The Company may use various types of derivative financial instruments to manage risks. Proceeds and costs realized from holding the related contracts are recognized at the time each transaction under a contract is settled. For the unrealized portion of such contracts, the Company utilizes the fair value method of accounting. The fair value is based on an estimate of the amounts that would have been paid to or received from counterparties to settle these instruments. The method requires the fair value of the derivative financial instruments to be recorded at each balance sheet date with unrealized gains or losses on those contracts recorded through net earnings. Transaction costs, if any, are added to the amounts of the associated financial instruments and amortized accordingly.

An embedded derivative is a component of a contract that affects the terms in relation to another factor. These hybrid contracts are considered to consist of a "host" contract plus an embedded derivative. The embedded derivative is separated from the host contract and accounted for as a derivative only if certain conditions are met. The Company has not identified any embedded derivatives which require separate recognition and measurement.

l) **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 shareholder's 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, 2008 and 2007.

m) **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.

n) **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.

o) **Measurement uncertainty and use of estimates** - The preparation of financial 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 and accretion; ceiling test; 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.

p) **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 at the time of filing.

q) **Per share amounts** - 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.

r) **Share issue costs** - Share issue 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.

3. Changes in Significant Accounting Policies - Current

Financial instruments – Disclosures and Presentation
Effective January 1, 2008, the Company adopted two new Canadian Institute of Chartered Accountants ("CICA") standards. Handbook Section 3862, Financial Instruments – Disclosures and Handbook Section 3863, Financial Instruments – Presentation. These Handbook Sections replaced existing Handbook Section 3861, Financial Instruments – Presentation and Disclosure. The new disclosure standard increases the emphasis on the risks associated with both recognized and unrecognized financial instruments and how those risks are managed. Specifically, section 3862 requires disclosure of the significance of financial instruments on the Company's financial position. In addition, the guidance outlines revised requirements for the disclosure of qualitative and quantitative information regarding exposure to risks arising from financial instruments. The new presentation standard carries forward the former presentation requirements.

Capital disclosures
Effective January 1, 2008, the Company adopted Handbook Section 1535, Capital Disclosures which requires companies to disclose their 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. In addition, quantitative disclosures regarding capital are required.

In addition, the Company has assessed new and revised accounting pronouncements that have been issued that are not yet effective and determined that the following may have a significant impact on the Company.

General standards of financial statement presentation
On January 1, 2008, the Company adopted CICA Handbook Section 1400 "General Standards of Financial Statement Presentation" which requires management to assess and disclose the ability of the Company to continue as a going concern."

Inventory
Effective January 1, 2008, the Company adopted CICA Section 3031, Inventories. This section provides guidance on the determination of costs and its subsequent recognition as an expense, including any write-down to net realizable value. It also provides guidance on the cost formulas that are used to assign costs to inventories. Since the Company carries no inventory, the adoption of this policy had no effect on the financial statements.

4. Change in Significant Accounting Policies - Future

Future accounting changes - The following future accounting standards are not expected to have a significant effect on the consolidated financial statements when the Company applies these accounting standards in the fiscal year beginning on January 1, 2009.

Goodwill and Intangible Assets - Section 3064 "Goodwill and Intangible Assets" replaces Section 3062, "Goodwill and Other Intangible Assets" and Section 3450, "Research and Development Costs". Various changes have been made to other sections of the CICA Handbook for consistency purposes. Section 3064 establishes standards for recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062.

The following future accounting standards are not expected to have a significant effect on the Company's consolidated financial statements when the Company applies these accounting standards in the fiscal year beginning on January 1, 2011:

- In January 2009, the AcSB issued Section 1582, Business Combinations, which replaces former guidance on business combinations. Section 1582 establishes principles and requirements of the acquisition method for business combinations and related disclosures.

- In January 2009, the AcSB issued Sections 1601, Consolidated Financial Statements, and 1602, Non-controlling Interests, which replaces existing guidance. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 provides guidance on accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination.

- International Financial Reporting Standards ("IFRS") - the Canadian Accounting Standards Board (AcSB) has confirmed that the use of International Financial Reporting Standards will be required in 2011 for all Canadian publicly accountable profit-oriented enterprises, including the Company. IFRS will replace Canada's current GAAP for those enterprises. These include listed companies and other profit-oriented enterprises that are responsible to large or diverse groups of stakeholders. The official changeover date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Companies will be required to provide comparative IFRS information for the previous fiscal year. The Company is currently reviewing the standards and evaluating the impact of adopting IFRS.

5. Property and Equipment

Property and equipment consists of petroleum and natural gas properties and administration assets, which is summarized as follows:

As of December 31, 2008	Cost	Accumulated Depletion &Depreciation	Net Book Value
Petroleum and natural gas assets	$ 4,191,540	$ 3,565,665	$ 625,875
Administration assets	23,132	11,345	11,787
	$ 4,214,672	$ 3,577,010	$ 637,662

As of December 31, 2007	Cost	Accumulated Depletion &Depreciation	Net Book Value
Petroleum and natural gas assets	$ 4,080,662	$ 2,750,719	$ 1,329,943
Administration assets	22,471	5,594	16,877
	$ 4,103,133	$ 2,756,313	$ 1,346,820

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 an independent engineering report. Cost of undeveloped land of $103,874 (2007 - $489,377) was excluded from the depletion and depreciation calculation. No proved reserved have been assigned to these properties. These costs have been separately evaluated by management for impairment.

The Company's petroleum and natural gas reserves, as used in ceiling test, were evaluated by independent reservoir engineers as at December 31, 2008 in a report dated May 12, 2009 for the

Canadian properties. The evaluation was conducted in accordance with the Canadian Securities Administrators, National Instruments 51-101 and the Canadian Oil and Gas Handbook, using the following price assumptions:

Year	$US/$CDN	AECO $CDN/Mcf	
2009	0.820	$	7.31
2010	0.850	$	7.99
2011	0.900	$	8.09
2012	0.900	$	8.47
2013	0.900	$	8.67
2014	0.900	$	8.77
2015	0.900	$	9.30
2016	0.900	$	9.53
2017	0.900	$	9.77
2018	0.900	$	10.01
2019	0.900	$	10.26
2020	0.900	$	10.52
2020+	0.900	Increase 2.5% annually	

Adjustments were made to benchmark prices to reflect varied delivery points and quality differentials in the products delivered.

6. Note Receivable (Kazakhstan)

Since January 2007, the Company received promissory notes on loans advanced to support legal proceedings to confirm ownership of charter capital 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.

Due to the uncertainty of the resolution, the Company recognized impairment in the full amount of the notes (including principal and interest). The advances bear annual interest of 5%, which has not been accrued due to uncertainty of collection. As of December 31, 2008, the Company has advanced $1,926,514 (2007 - $1,532,579) of principal on the promissory notes.

7. Flow-through Related Tax, Interest and Penalties Owing

The Company did not incur $494,172 of required expenditures pursuant to flow-through shares issued in 2007. According to the share-issuance agreement, the Company is required to pay any resulting tax, interest, and penalties on behalf of the initial investor of the flow-through shares. The Company has accrued $345,533 due to the short-fall in flow-through expenditures, made up of $90,709 for Part XII.6 tax and $254,824 for estimated investor tax obligations.

8. Future Income Taxes

At December 31, 2008, the Company has $1,712,000 of CEE tax pools, $2,674,000 of non-capital losses and undeducted share issue costs of $274,000 which are available for deduction against future taxable income. The future income tax asset at December 31, 2008 $37,800 relates to the future income taxes to be recorded on the flow through share renouncement made in February 2009.

The difference in the provision for future income tax differs from expected recovery using combined Canadian federal and provincial tax rates to the loss before taxes is described as follows:

		2008		2007
Corporate tax rate		**29%**		32%
Expected income tax reduction	**$**	**(857,352)**	$	(1,271,729)
Differences arising from				
Non-deductible portion of loan impairment		**114,241**		492,464
Non-deductible stock-based compensation		**88,072**		-
Effect of previously unrecognized future income tax assets		**(26,401)**		-
Impact of change in future income tax rates		**178,160**		13,465
Valuation allowance		**611,255**		386,911
Provision for future income tax expense (reduction)	**$**	**107,975**	$	(378,889)

The significant components of the Company's future income tax assets are as follows:

	2008	2007
Property, plant and equipment	$ 531,500	$ 453,270
Share capital	68,500	105,850
Notes receivable	481,250	444,280
Non-capital loss carry forwards	677,000	444,570
	1,758 250	1,447,970
Less: Valuation allowance	(1,720,450)	(1,110,195)
Future income tax asset	$ 37,800	$ 337,775

As the criteria for recognizing future income tax assets have not been met due to the uncertainty of realization, a valuation allowance has been recorded for the current and prior years.

9. Asset Retirement Obligations

The following table presents the reconciliation of the asset retirement obligations associated with the retirement of oil and natural gas properties:

	2008	2007
Balance, beginning of year	$ 50,273	$ 35,918
Additions during year	-	11,548
Accretion expense	5,579	2,807
Balance, end of year	$ 55,852	$ 50,273

The Company estimates the total undiscounted amount of cash flows required to settle its asset retirement obligations at December 31, 2008 is $78,088 (2007 - $78,088), which will be incurred in 2014 and later. An inflation rate of 2% and a credit-adjusted risk-free rate of 8% were used to calculate the asset retirement obligations.

10. Share Capital

The following table shows the transactions in the share capital over the last two years:

Authorized

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

Issued	Number	Amount
Common Shares		
Balance, December 31, 2006	11,234,700	3,133,013
Private placement (i)	1,001,000	883,927
Flow-through shares (ii)	98,000	122,500
Issued pursuant to Alyattes share exchange (iii)	675,000	1,087
Private placement (iv)	1,146,500	1,017,920
Private placement (v)	1,700,000	710,470
Flow-through shares (vi)	1,170,000	489,388
Private placement (vii)	1,440,000	604,483
Flow-through shares (viii)	50,000	20,989
Flow-through shares (ix)	825,000	346,837
Penalty shares (x)	1,709,030	-
Tax effect of flow-through share renouncement	-	(41,114)
Share issue costs	-	(227,262)
Balance, December 31, 2007	21,049,230	$ 7,062,238
Penalty Issuance (xi)	360,000	-
Private placement (xii)	125,000	11,850
Flow-through shares (xiii)	425,000	40,290
Flow-through shares (xiv)	250,000	24,575
Tax effect of flow-through share renouncement (xvii)	-	(192,000)
Balance, December 31, 2008	22,209,230	$ 6,946,953

2007 share capital transactions:

i) In January 2007, the Company completed the private placement of 1,001,000 units at a price of $1.00 per unit for gross proceeds of $1,001,000. Each unit is comprised of one common share and one-half of one common share purchase warrant. Each whole common share purchase warrant entitles the holder to acquire one common share at an exercise price of $1.25 per share on or before March 1, 2009. $117,073 has been ascribed to the value of the warrants and the remaining amount of $883,927 has been ascribed to the value of the common shares. The value of the warrants was estimated using the Black-Scholes pricing model assuming a risk-free interest rate of 4.10%, weighted average life of 2 years, dividend yield of nil, and expected volatility of 50%.

ii) In January 2007, the Company completed a private placement of 98,000 flow-through shares at a price of $1.25 per share for gross proceeds of $122,500. *Wedge has until* December 31, 2008 to incur $122,500 of qualifying flow-through expenditures.

iii) On January 31, 2007, the Company consolidated its capital under an Amalgamation Agreement that was completed entirely on February 1, 2007 together with the change of name to Wedge Energy International Inc. (note 4). Upon closing of the amalgamation, the Company exchanged 675,000 shares of Wedge Energy International Inc. for 675,000 shares of Alyattes Enterprises Inc.

iv) In March 2007, the Company completed the private placement of 1,146,500 units at a price of $1.00 per unit for gross proceeds of $1,146,500. Each unit is comprised of one common share and one-half of one common share purchase warrant. Each whole common share purchase warrant entitles the holder to acquire one common share at an exercise price of $1.25 per share on or before March 1, 2009. $128,580 has been ascribed to the value of the warrants and the remaining amount of $1,017,920 has been ascribed to the value of the common shares. The value of the warrants was estimated using the Black-Scholes pricing model assuming a weighted average risk-free interest rate of 3.87%, weighted average life of 2 years, dividend yield of nil, and expected volatility of 50%.

v) In September 2007, the Company completed a private placement of 1,700,000 units at a price of $0.50 per unit for gross proceeds of $850,000. Each unit is comprised of one common share and one common share purchase warrant. Each common share purchase warrant entitles the holder to acquire one common share at an exercise price of $0.75 per share on or before September 1, 2009. $139,530 has been ascribed to the value of the warrants and the remaining amount of $710,470 has been ascribed to the value of the common shares. The value of the warrants was estimated using the Black-Scholes pricing model assuming a weighted average risk-free interest rate of 4.38%, weighted average life of 2 years, dividend yield of nil, and expected volatility of 50%.

vi) In October 2007, the Company completed a private placement of 1,170,000 units at a price of $0.50 per unit for gross proceeds of $585,000. Each unit is comprised of one flow-through common share and one common share purchase warrant. Each common share purchase warrant entitles the holder to acquire one common share at an exercise price of $0.75 per share on or before September 1, 2009. $95,612 has been ascribed to the value of the warrants and the remaining amount of $489,388 has been ascribed to the value of the flow-through common shares. The value of the warrants was estimated using the Black-Scholes pricing model assuming a risk-free interest rate of 4.39%, weighted average life of 2 years, dividend yield of nil, expected volatility of 50%. The Company has until December 31, 2008 to incur $585,000 of qualifying flow-through expenditures.

vii) In October 2007, the Company completed a private placement of 1,440,000 units at a price of $0.50 per unit for gross proceeds of $720,000. Each unit is comprised of one common share and one common share purchase warrant. Each common share purchase warrant entitles the holder to acquire one common share at an exercise price of $0.75 per share on or before September 1, 2009. $115,517 has been ascribed to the value of the warrants and the remaining amount of $604,483 has been ascribed to the value of the common shares. The value of the warrants was estimated using the Black-Scholes pricing model assuming a risk-free interest rate of 4.22%, weighted average life of 2 years, dividend yield of nil, and expected volatility of 50%.

viii) In October 2007, the Company completed a private placement of 50,000 units at a price of $0.50 per unit for gross proceeds of $25,000. Each unit is comprised of one flow-through common share and one common share purchase warrant. Each common share purchase warrant entitles the holder to acquire one common share on or before September 1, 2009. $4,011 has been ascribed to the value of the warrants and the remaining amount of $20,989 has been ascribed to the value of the flow-through common shares. The value of the warrants was estimated using the Black-Scholes pricing model assuming a risk-free interest rate of 4.22%, weighted average life of 2 years, dividend yield of nil, and expected volatility of 50%. The Company has until December 31, 2008 to incur $25,000 of qualifying flow-through expenditures.

ix) In December 2007, the Company completed a private placement of 825,000 units at a price of $0.50 per unit for gross proceeds of $412,500. Each unit is comprised of one flow-through common share and one common share purchase warrant. Each common share purchase warrant entitles the holder to acquire, at the option of the holder, either one common share at a price of $0.75 per share or one flow-through common share at a price of $0.75 per flow-through share on or before November 15, 2009. $65,663 has been ascribed to the value of the warrants and the remaining amount of $346,837 has been ascribed to the value of the flow-through common shares. The value of the warrants was estimated using the Black-Scholes pricing model assuming a weighted average risk free interest rate of 3.83%, weighted average life of 2 years, dividend yield of nil, and expected volatility of 50%. The Company has until December 31, 2008 to incur $412,500 of qualifying flow-through expenditures.

x) During the year, the Company has issued 1,709,030 common shares in connection with the penalty for non-completion of the Exit Event referred to in note (v) above. These common shares were issued as penalty shares for no consideration.

2008 share capital transactions:

xi) 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.

xii) 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 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%.

xiii) 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 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%.

xiv) 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 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%.

xv) The following table shows shares held in escrow as of December 31:

Release Date	Issue Price		2008	2007
June 15, 2008	$	0.01	-	350,000
June 15, 2008	$	0.05	-	387,500
September 1, 2008	$	0.01	-	350,000
September 1, 2008	$	0.05	-	581,250
March 1, 2009	$	0.01	**350,000**	350,000
March 1, 2009	$	0.05	**581,250**	581,250
September 1, 2009	$	0.01	**350,000**	350,000
September 1, 2009	$	0.05	**581,250**	581,250
March 1, 2010	$	0.05	**581,250**	581,250
September 1, 2010	$	0.05	**581,250**	581,250
March 1, 2011	$	0.05	**581,250**	581,250
			3,606,250	5,275,000

11. Warrants

Common share purchase warrants outstanding and exercisable at December 31, 2008 and 2007 are summarized as follows:

Balance, December 31, 2006	$	1,700,000	$	258,609
Issued during 2007		6,478,750		691,095
Balance, December 31, 2007		8,178,750		949,704
Issued during 2008		800,000		83,286
Warrants expiring in 2008				
August		(700,000)		(109,046)
October		(1,000,000)		(149,563)
Balance, December 31, 2008	$	7,278,750	$	774,381

As at December 31, 2008, the following warrants were outstanding:

Description	Exercise Price	Expiry	Number	Amount
Compensation related warrants				
March 2007 warrants	$ 1.25	01-Mar-09	50,000	$ **11,161**
November 2007 warrants	$ 0.75	19-Oct-09	100,000	**8,256**
December 2007 warrants	$ 0.75	15-Nov-09	60,000	**4,895**
December 2007 warrants	$ 0.75	15-Nov-09	10,000	**789**
Subtotal			220,000	**25,101**
Share purchase warrants				
January 2007 warrants	$ 1.25	01-Mar-09	500,500	**117,073**
March 2007 warrants	$ 1.25	01-Mar-09	573,250	**128,476**
September 2007 warrants	$ 0.75	1-Sep-09	300,000	**25,122**
October 2007 warrants	$ 0.75	1-Sep-09	4,060,000	**329,549**
December 2007 warrants	$ 0.75	15-Nov-09	825,000	**65,775**
July 2008 warrants	$ 0.30	15-Jul-10	550,000	**57,860**
August 2008 warrants	$ 0.30	15-Jul-10	250,000	**25,425**
Subtotal			7,058,750	**749,280**
Total Warrants			7,278,750	$ **774,381**
Weighted Average Price of Warrants				$ **0.78**
Weighted Average Life of Warrants (years)				**0.71**

12. Contributed Surplus

The following table reconciles the Company's contributed surplus balance over the year:

	2008	2007
Balance, beginning of year	**$ 65,652**	$ 19,133
Stock-based compensation	**303,695**	46,519
Warrants expired	**258,609**	-
Balance, end of year	**$ 627,956**	$ 65,652

13. Compensation Unit Options

In connection with the closing of private placements in 2007, the Company issued Compensation Units that were comprised of common shares options and warrants. This schedule displays the common share component of the Compensation Units:

	Number		Amount
Balance, December 31, 2006	-	$	-
Issued during 2007	270,000		46,519
Balance, December 31, 2007	270,000		46,519
Warrants expiring in 2008	(100,000)		(20,994)
Balance, December 31, 2008	170,000	$	25,525

Description		Exercise Price	Expiry	Number		Amount
As at December 31, 2008						
November 2007 options	$	0.50	19-Oct-09	100,000	$	15,065
December 2007 options	$	0.50	15-Nov-09	60,000		8,981
December 2007 options	$	0.50	15-Nov-09	10,000		1,479
Total options				170,000	$	25,525

Weighted Average Price related to Compensation Unit options	$	0.50
Weighted Average Life related to Compensation Unit options (years)		0.83

14. Stock Options

As at December 31, 2008 the following Stock options were outstanding:

Description		Exercise Price	Expiry	Number		Amount
April 2008 stock options	$	0.50	15-Mar-13	1,300,000	$	190,593
July 2008 stock options	$	0.25	29-Jul-13	700,000		113,102
Total options				2,000,000	$	303,695

Weighted Average Price related to Stock options	$	0.41
Weighted Average Life related to Stock options (years)		4.34

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%.

There were no stock options issued or outstanding in 2007.

15. Change in Non-cash Working Capital

The following table reconciles the change in non-cash working capital:

		2008		2007
Accounts receivable	$	123,466	$	(95,916)
Prepaid expenses		92,966		(97,191)
Accounts payable and accrued liabilities		378,093		174,885
	$	594,525	$	(18,222)
Allocation				
Operating	$	554,473	$	19,890
Financing		-		10,000
Investing		40,052		(48,112)
	$	594,525	$	(18,222)

16. Per Share Amounts

Per share calculations are based on the weighted average number of common shares outstanding during the year ended December 31, 2008 of 21,205,066 (2007 - 14,946,529). Diluted per share amounts have not been disclosed, as the effects of share options and warrants are anti-dilutive.

17. Capital Management

The Company's policy is to maintain its capital base to sustain the future development of the business. The capital structure is adjusted to reflect market conditions and the Company's need for capital for capital expenditures and working capital.

The Company's general policy is to maintain a sufficient capital base in order to manage its business effectively with the goal of increasing the value of its assets and thus its underlying share value. The Company's objectives when managing capital are to maintain financial flexibility to meet financial obligations; to facilitate growth; and to optimize the use of capital sources to provide an appropriate investment return to its shareholders. The Company is not subject to any externally imposed capital requirements.

Wedge strives to properly exploit its current asset base and to acquire top quality assets. To that end, the Company is not averse to maintaining a high ratio of debt to total capital if management determines the assets it is acquiring or the projects it is drilling are of high quality.

The Company's capital management objectives, evaluation measures, definitions and targets have remained unchanged over the periods presented.

The Company's share capital is not subject to external restrictions and no dividends have been declared since incorporation.

18. Financial Instruments

a. Fair values of financial assets and liabilities - Financial instruments consist of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities. At December 31, 2008, there are no significant differences between the carrying amounts reported on the balance sheet and their estimated fair values.

b. Liquidity risk - The Company is not exposed significant amount of interest rate risk. The Company has not entered into any hedging contracts

c. Credit risk - The Company's accounts receivable are primarily from joint interest partners operating in the petroleum and natural gas industry and are subject to credit and political risks that is considered normal in this environment.

d. Market risk - The Company is exposed to risk related to the prices of commodities and the condition of the financial markets to raise equity to fund operations. The Company is not exposed to interest rates as the Company does not have any interest rate debt.

e. Foreign currency risk - The Company is exposed to foreign currency fluctuations as certain expenditures are denominated in US dollars. The Company did not enter any foreign exchange forward rate contracts during 2007 or 2008.

19. 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 2008, the Company was charged $163,000 (2007-$60,775) for accounting, administrative fees and software solutions by a corporation of which a director of the Company is an officer. As of December 31, 2008, the $173,000 was included in the Accounts payable and accrued liabilities balance.

During the 2008 year, a director advanced $15,000 (2007 – nil) to the Company. This amount is non-interest bearing and has no set repayment terms. As of December 31, 2008, the full amount of this loan was included in the Accounts payable and accrued liabilities balance.

20. Segmented Information

The Company's reportable segments are organized by geographical areas and consist of Canada, Kazakhstan and USA:

	December 31, 2008			
	Canada	**USA**	**Kazakhstan**	**Total**
Revenue	$ 131,609	$ -	$ -	$ 131,609
Expenses	(1,505,892)	-	-	(1,505,892)
Depletion, depreciation and accretion	(1,188,168)	-	-	(1,188,168)
Impairment of note receivable	-	-	(393,935)	(393,935)
Loss before income taxes	(2,562,451)	-	(393,935)	(2,956,386)
Capital expenditures	$ 473,430	$ -	$ -	$ 473,430
Total assets	$ 725,710	$ -	$ -	$ 725,710

	December 31, 2007			
	Canada	USA	Kazakhstan	Total
Revenue	$ 83,786	$ -	$ -	$ 83,786
Expenses	(1,251,968)	-	-	(1,251,968)
Depletion, depreciation and accretion	(762,597)	(748,539)	(174,674)	(1,685,810)
Impairment of note receivable	-	-	(1,471,005)	(1,471,005)
Unrealized foreign exchange loss	-	-	(105,258)	(105,258)
Loss before income taxes	$ (1,930,779)	$ (748,539)	$ (1,750,937)	$ (4,430,255)
Capital expenditures	$ 970,996	$ 748,539	$ 174,674	$ 1,894,209
Total assets	$ 2,789,170	$ -	$ -	$ 2,789,170

21. Commitments and contingencies

The lease for the Calgary office rent was bought out in 2008 with a cancellation payment of $30,000 and forfeiture of the $54,000 security deposit.

The Company issued a total of $135,000 in flow-through shares during 2008. The Company has until December 31, 2009 to incur $135,000 of qualifying flow-through exploration expenses.

22. Subsequent Events

a. On February 19, 2009, the Company announced the grant of 200,000 stock options to two of its directors.

b. On February 26, 2009, the Company sold certain petroleum and natural gas properties and interests, in which it held a 40% working interest for consideration, including $50,000 cash, the cancellation of accounts payable of $52,296 and a 5% gross over-riding royalty.

c. On April 28, 2009, the Company announced that it re-priced and extended the terms of its outstanding warrants. Warrants originally priced to be exercised at $0.75 and $0.30 has been re-priced to be exercised at $0.35 and $0.15 respectively. Warrants originally priced at $0.75 originally expired September 1, 2009 and November 15, 2009 have been extended to September 1, 2011 and November 15, 2011 respectively.

d. On April 29, 2009, the Company announced that it has completed an offer to six creditors for settlement of $334,713. The Company will pay, upon the sale of certain assets, $171,530 in cash and will issue a total of 568,518 common shares in the Company.

e. On June 19, 2009, the Company announced that it has completed the private placement for total proceeds of $57,500 of 1,150,000 non-brokered units at a price of $0.05 per unit, with each unit comprised of one common share and one common share purchase warrant, each whole warrant exercisable at $0.10 into one common share until May 1, 2012.

f. On June 25, 2009, a Joint Venture partner, with whom the Company has an interest in a producing well of the Company, filed for receivership. The impact of this has yet to be determined by management.

g. On August 5, 2009, the Company announced that it has completed a private placement for total proceeds of $50,000 of 1,000,000 non-brokered units at a price of $0.05 per unit, with each unit comprised of one common share and one common share purchase warrant, each whole warrant exercisable at $0.10 into one common share until May 1, 2012.