Wedge Energy International Inc.

(an exploration stage company)

Consolidated Financial Statements

For the year ended December 31, 2010

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Management's Report to Shareholders

The consolidated financial statements for the year ended December 31, 2010 and 2009 for Wedge Energy International Inc. ("Wedge" or "the Company") are the responsibility of management. These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

The Company 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 Company's 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 consolidated financial statements have been approved by the Board on the recommendation of the Audit Committee.

Raymond Chabot Grant Thornton LLP, an independent firm of Chartered Accountants, was appointed by the Audit Committee to audit the consolidated financial statements of the Company in accordance with Canadian Generally Accepted Audit Standards. The report is presented within the consolidated financial statements. The previous years figures were audited by another independent firm of Chartered Accountants who expressed an unmodified opinion on March 26, 2010.

Donald Padgett
Chief Executive Officer
April 22, 2011

Independent Auditor's Report

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To the Shareholders of
Wedge Energy International Inc.

We have audited the accompanying consolidated financial statements of Wedge Energy International Inc., which comprise the consolidated balance sheet as at December 31, 2010 and the consolidated statements of loss, comprehensive loss and deficit, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Wedge Energy International Inc. as at December 31, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Other matters

The consolidated financial statements of Wedge Energy International Inc. for the year ended December 31, 2009, were audited by another auditor who expressed an unmodified opinion of those statements on March 26, 2010.

Emphasis of matter

Without qualifying our opinion, we draw attention to note 1 in the consolidated financial statements, which indicates that the Company incurred a net loss of $829,269 during the year ended December 31, 2010 and, as of that date, the Company's current liabilities exceeded its current assets by $1,331,831 and the Company's shareholders' deficiency amount to $1,331,831. These conditions, along with other matters as set forth in note 1, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Raymond Chabot Grant Thornton LLP

Chartered Accountants,
Licensed Public Accountants

Ottawa, Canada
April 27, 2011

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

		2010		2009
Assets				
Current Assets				
Cash	**$**	**182,985**	$	37,585
Accounts receivable		**23,047**		4,005
Prepaid expenses		**6,418**		-
Total Assets	**$**	**212,450**	$	41,590
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities	**$**	**381,660**	$	538,078
Part XII.6 tax (note 4)		**-**		118,609
Flow-through related obligations (note 4)		**-**		316,924
Liability component - convertible debt (note 5)		**1,162,621**		258,975
		1,544,281		1,232,586
SHAREHOLDERS' DEFICIENCY				
Share capital (note 6)		**7,831,834**		7,293,609
Contributed surplus (note 8)		**1,265,449**		940,296
Warrants (note 7)		**259,122**		572,595
Equity component - convertible debt (note 5)		**153,229**		14,700
Deficit		**(10,841,465)**		(10,012,196)
Total Shareholders' Deficiency		**(1,331,831)**		(1,190,996)
Total Liabilities and Shareholders' Deficiency	**$**	**212,450**	**$**	**41,590**

Nature of operations and going concern (note 1)
Loans receivable (note 3)
Commitments and contingencies (note 15)

On behalf of the Board

"signed Don Padgett"
Director

"signed James Passin"
Director

The accompanying notes are an integral part of these consolidated financial statements.

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

		2010		2009
REVENUE				
Petroleum and natural gas sales	**$**	**-**	$	28,367
Less: royalties		**-**		(10,182)
Interest & other income		**1,104**		925
	$	**1,104**	$	19,110
EXPENSES				
Production costs	**$**	**-**	$	18,906
General and administration		**138,876**		40,790
Professional fees		**303,686**		72,151
Promotion & Investor Conference		**12,589**		12,284
Regulatory, exchange, Annual General Meeting, press release and transfer agent fees		**30,377**		27,107
Accretion		**142,175**		3,675
Depletion		**-**		247,006
Impairment on loan receivable (note 3)		**381,677**		463,800
Stock-based compensation (note 9)		**11,680**		41,690
Flow-through related tax and obligations (note 4)		**(303,490)**		90,000
Interest expense		**114,683**		7,283
Foreign exchange gain		**(1,880)**		(14,921)
		830,373		1,009,771
Loss before income taxes	**$**	**(829,269)**	$	(990,661)
Future income tax expense (note 10)		**-**		37,800
Net loss and comprehensive loss	**$**	**(829,269)**	$	(1,028,461)
Deficit, beginning of year		**(10,012,196)**		(8,983,735)
Deficit, end of year	**$**	**(10,841,465)**	$	(10,012,196)
Loss per share				
Basic and diluted	**$**	**(0.02)**	$	(0.04)
Weighted average of number of shares outstanding				
Basic and diluted		**34,952,173**		24,893,398

The accompanying notes are an integral part of these consolidated financial statements.

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

		2010		2009
Operating activities				
Net loss	**$**	**(829,269)**	$	(1,028,461)
Adjustments for items not involving cash:				
Depletion, depreciation, and accretion		**142,175**		250,681
Impairment on loans receivable		**381,677**		463,800
Stock-based compensation		**11,680**		41,690
Future income tax expense		**-**		37,800
Reduction in the estimate of the part XII.6 interest and penalties		**29,766**		-
Flow-through related tax and obligations		**(303,490)**		90,000
Interest (shares issued in lieu of cash payment)		**78,025**		6,750
		(489,437)		(137,740)
Changes in non-cash working capital (note 11)		**(300,486)**		45,512
		(789,923)		(92,228)
Investing activities				
Proceeds on disposal of property and equipment		**-**		152,000
Advances on loans receivable		**(381,677)**		(463,800)
		(381,677)		(311,800)
Financing activities				
Proceeds from issuance of Common shares		**67,000**		157,500
Proceeds from issuance of Preferred shares		**350,000**		-
Proceeds from convertible debt issuance		**1,170,000**		270,000
Repayment of convertible debt		**(270,000)**		-
		1,317,000		427,500
Net increase in cash	**$**	**145,400**	$	23,472
Cash, beginning of year		**37,585**		14,113
Cash, end of year	**$**	**182,985**	$	37,585

The accompanying notes are an integral part of these 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. On February 10, 2006 Wedge Energy Inc. was incorporated in Alberta as a wholly owned subsidiary of Wedge Energy International Inc.

The Company is a development stage junior mining company engaged in the identification, acquisition, evaluation and exploration of precious and base metals with mineral. At the date of these financial statements the Company does not have or own the right to any mineral properties.

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, 2010, the Company had a shareholders’ deficiency of $1,331,831 (2009 - $1,190,996) and a working capital deficiency of $1,331,831 (2009 - $1,190,996).

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. Several conditions cast significant doubt on the validity of this assumption. From inception to date, the Company has incurred losses from operations and has had negative cash flow from operating activities. At December 31, 2010, the Company had total cash and cash equivalents of $182,985 (2009 - $37,585). The Company requires additional funding to be able to acquire any exploration projects and to meet ongoing requirements for general operations.

While management has been successful in obtaining sufficient funding for its operating, capital and exploration requirements from the inception of the Company to date there is, however, no assurance that additional funding will be available to the Company, or that, when it is required it will be available on terms which are acceptable to management. Management 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 reflect any adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classification that would be necessary if the going concern assumption were not appropriate and such adjustments could be material.

2. Basis of Presentation and Significant Accounting Policies

These consolidated financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles. The consolidated financial statements have, in management's opinion, been properly prepared within the framework of the significant accounting policies listed below.

The consolidated financial statements have been prepared using the historical cost method.

Consolidation

The consolidated financial statements include the accounts of Wedge Energy International Inc. and its wholly owned subsidiary, Wedge Energy Inc. (“the subsidiary”). All significant inter-company balances and transactions are eliminated upon consolidation.

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. Revenue is recognized as persuasive evidence of an arrangement exists, where the price is fixed or determinable and collection is reasonably assured.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Significant estimates used in the preparation of these financial statements include, but are not limited to the estimated net realizable value of the accounts payable and accrued liabilities, Part XII.6 tax payable, the liability component of the convertible debt, the provision for income taxes and composition of future income tax assets and liabilities and the determination of the fair value for stock based transactions given the thinly traded nature of the Company's stock. Actual results could differ from those estimates. Management believes that the estimates are reasonable.

Measurement uncertainty

The Company has recorded liabilities under dispute which are subject to measurement uncertainty. Any adjustments may have a material effect on net loss and will be recognized in the consolidated financial statements as they become known. Significant accounts with measurement uncertainty also include the allowance for the impairment on the loan receivable (note 3).

Cash and cash equivalents

Cash and cash equivalents include investments which have a term to maturity at the time of purchase of ninety days or less and which are readily convertible into cash.

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.

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.

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. Loans and receivables, and other financial liabilities are measured at amortized cost using the effective interest method of amortization.

These financial instruments are classified as follows:

- Cash – held for trading
- Accounts receivable – loans and advances
- Accounts payable and accrued liabilities – other financial liability
- Part XII.6 tax – other financial liability
- Convertible debt – other financial liability

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 on the date that the Company renounces the deductions to investors.

Share issue costs

Costs incurred on the issue of the Company's common and preferred shares are charged directly to share capital. When the Company issues flow-through common shares the share issue costs associated with the shares are charged directly to capital and are net of applicable future income tax benefits.

Loss per common share

Basic loss per common share is calculated based upon the weighted average number of common shares outstanding during the period. The diluted loss per common share, which is calculated using the treasury stock method, is equal to the basic loss per common share due the fact that the company has incurred losses to date and to the anti-dilutive effect of stock options, convertible debt if converted and share purchase warrants outstanding.

Stock-based compensation

The Company uses the fair value based method of accounting for stock-based compensation arrangements granted to employees and non-employees. The fair value of each option granted is accounted for in operations or in deferred exploration expenditures over the vesting period of the option using the Black-Scholes options pricing model at the date of grant, with the related increase to contributed surplus. The stock option vesting schedule is as follows: stock options granted to directors, officers, and consultants not performing investor relations functions vest immediately when granted, whereas stock options granted to investor relations consultants vest at a rate of 25% per 3 months.

Compensation expense on stock-based compensation granted to non-employees is measured at the earlier of the completion of performance and the date the options are vested using the fair value method and is recorded as an expense in the same period as if the Company had paid cash for the goods or services received. Any consideration received by the Company on exercise of stock options is credited to share capital.

Income taxes

The Company accounts for income taxes under the asset and liability method that requires the recognition of future income tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and tax basis of assets and liabilities. The Company provides a valuation allowance on net future tax assets when it is more likely than not that such assets will not be realized. The future tax assets and liabilities are measured using substantially enacted rates that are expected to apply when the tax assets or liabilities are realized or settled.

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.

3. Loan Receivable

Since January 2007, the Company has advanced funds to an unrelated third party (the "Borrower") for the Borrower's legal proceedings to confirm ownership of charter capital in an oil and gas property in Kazakhstan. Based on the Framework Agreement dated August 31, 2009 (the "Agreement"), the funds advanced have been in the form of a loan facility of up to $ 2.9 million USD in principal. The loan carries an interest rate of 5% per annum, which accumulated to the balance of the loan. Based on the form of settlement reached by the Borrower's claims, the Company will be entitled to the right to purchase a 70% interest in the property claim or related assets (including any equity investment of a joint venture). According to the Agreement, the Company has agreed to pay 100% of the initial exploration expenses and contribute a minimum of $15 million USD for the project within a two year period.

The principal and interest amount of the advances is summarized below:

	2010	2009
Cumulative advances	**$ 2,556,256**	$ 2,174,579
Unrecorded interest on cumulative advances	**453,744**	439,867
Cumulative write-off of advances and unrecorded interest	**(3,010,000)**	(2,614,446)
Balance at year-end	**$ -**	$ -

During 2010, the Company has advanced $381,677 to the Borrower. Interest accrued and outstanding on the loan prior to the assignment to Desiree Resources Inc. was $238,009. Given the uncertainty of a successful litigation management has taken a 100% allowance on the loan and accrued interest.

On October 21, 2010 the Company announced that the license to explore the Arys Concession in Kazakhstan granted by the Government of Kazakhstan and held by Turan Enerpetroleum LLP has expired pursuant to its terms.

The Company was a party to a Framework Agreement with Kazenercom LLP (the "Borrower"), Yerkin Kaldybayevich Bektayev and Trek Resources, Inc. dated August 31, 2009 (the "Framework Agreement") whereby the Company was to have received a 70% interest in the Arys Concession: (a) in the event that ongoing litigation, to which the Company was not a party, was ultimately concluded successfully; and (b) in exchange for the Company's financial contributions to support the litigation (provided that the Borrower did not repay the financial contributions). Prior to the assignment of the Framework Agreement to Desiree Resources Inc. on November 16, 2010, the Company has advanced $3,010,000, including interest (which has not been recorded in these statements due to the impairment in the loans, to the Borrower pursuant to the Framework Agreement (the "Loan"). As a result of the termination of the license on the Arys Concession, no further advances have been made by the Company under the Framework Agreement. Management had previously taken the position that the Loan would only be collectible when and if the litigation was successful.

On November 16, 2010 the Company announced the Company has assigned the Framework Agreement with Kazenercom LLP (the "Borrower"), Yerkin Kaldybayevich Bektayev and Trek Resources, Inc. dated August 31, 2009 (the "Framework Agreement") to Desiree Resources Inc. a company controlled by the former Chief Executive Officer of Wedge and a company that shares the same Chief Financial Officer with Wedge.

Under the agreement between Wedge Energy International Inc. and Desiree Resources Inc. the assignment of the framework agreement and loan facility, Desiree Resources Inc. will be assigned the full benefit of the Framework Agreement and the Loans made there under, and the Desiree Resources Inc. has agreed to assume liability for the performance of the obligations of the Company under the Framework Agreement and the Loans. In the event that Desiree Resources Inc. is awarded a new license in Kazakhstan over the Arys Concession (the “License Date”), Desiree Resources Inc. will make a payment to the Company totaling US$1,500,000.00 (the “Purchase Price”), as follows:

(A) US$500,000.00 on the date that is twelve (12) months from the License Date;
(B) US$500,000.00 on the date that is eighteen (18) months from the License Date; and,
(C) US$500,000.00 on the date that is twenty-four (24) months from the License Date.
(D) In the event of non payment of any of the above noted payments the Assignor shall have the right and option to be assigned the License on a pro rata basis in discharge of the Assignees obligations

The Company concurrently to the assignment of the framework agreement to Desiree Resources Inc. cancelled 6,480,000 warrants issued to Robin Dow, former CEO and director of the Company as part of the terms and conditions associated to the assignment of the framework agreement to Desiree Resources Inc.

No receivable has been accrued for the US$1,500,000 payment from Desiree Resources Inc. as at December 31, 2010 due to the fact that it is unlikely that Desiree Resources Inc. will be awarded a new license over the Arys Concession.

4. Flow-through Related Tax and Obligations

The Company did not incur $494,172 and $135,000 of qualifying expenditures pursuant to flow-through shares issued in 2007 and 2008 respectively. According to the subscription agreements, the Company is required to pay any resulting tax, interest, and penalties on behalf of the investor if the flow-through commitments are not met. In March 2010, the Company received waivers from all the investors to accept a total of 1,080,000 shares for the renouncement shortfall of flow-through expenditures. At the time of the issuance the common shares had a fair market value of $0.04 per share. The Company realized a net gain on the issuance of its common shares in exchange for investor waivers of $303,490.

Any potential tax penalties and interest have been accrued during the year with respect to this flow-through issue based on management’s estimates, as at December 31, 2010, all tax penalties and interest relating to the Company’s inability to meet its flow-through expenditure obligations of $110,251 was fully paid by the Company to the Canada Revenue Agency.

In 2010, the Company made a payment of $90,342 and $19,909 to the Canada Revenue Agency for penalties and interest on failure to incur qualifying expenditures pursuant to flow-through shares issued in 2007 and 2008 respectively.

The Company’s flow-through related liabilities and obligations are summarized as follows:

	2010	2009
Part XII.6 tax – 2007 renouncement shortfall	**$ -**	$ 90,709
Part XII.6 tax – 2008 renouncement shortfall	**-**	27,900
Total Part XII.6 tax	**$ -**	$ 118,609
Estimated 2007 investor obligations	**-**	254,824
Estimated 2008 investor obligations	**-**	62,100
Total estimated investor obligations	**-**	316,924
Total flow-through related obligations	**$ -**	$ 435,533

As at December 31, 2010, the Company has been assessed and fulfilled its obligations relating to Part XII.6 tax for 2007 and 2008. The Company did not issue any flow through shares in 2009 and 2010.

5. Convertible Debt

In October 2009, the Company issued $270,000 of convertible notes which matured on October 9, 2010 (“the October 2009 Notes”). The October 2009 Notes were convertible into 5,400,000 common shares at a conversion price of $0.05 per share. The Company also issued to the investors 5,400,000 warrants entitling the holders thereof to purchase up to 5,400,000 common shares until October 9, 2011 at an exercise price of $0.05. Interest on the principal amount of the October 2009 Notes was 10% per annum (not compounded) payable quarterly in advance, which the Company had the right to effectuate the interest payment in common shares.

In January 2010, the Company issued $770,000 of convertible notes, which mature on January 26, 2011 (the “January 2010 Notes”). The January 2010 Notes are convertible into 77,000,000 common shares at a conversion price of $0.01 per share. The Company also issued to the investors 33,900,000 warrants entitling the holders thereof to purchase up to 33,900,000 common shares until January 26, 2012 at an exercise price of $0.02. Interest on the principal amount of the January 2010 Notes is 10% per annum (not compounded) payable quarterly in advance, which the Company has the right to effectuate the interest payment in common shares. Of the total proceeds of $770,000, $270,000 was used to repurchase the October 2009 Notes as condition of issuance of January 2010 Notes. In addition, all the investors waived the 5,400,000 warrants from the October 2009 Notes and participated in the January 2010 Notes issuance. In 2010, the Company issued 7,163,110 common shares to the holders of the January 2010 convertible notes as payment for interest in accordance with the terms of the Notes (refer to note 6). In April and May 2010, the holders of the January 2010 Convertible Notes exercised 3,350,000 warrants (refer to note 6). The January 2010 convertible notes were renegotiated after year-end (note 16). The effective interest rate on this convertible note was 28%.

In July 2010, the Company issued $400,000 of convertible notes, which mature on November 30, 2010 (the “July 2010 Notes”). The July 2010 Notes are convertible into 8,000,000 common shares at a conversion price of $0.05 per share. There were no warrants associated with these convertible notes. Interest on the principal amount of the July 2010 Notes is 10% per annum (not compounded) payable at the maturity of the note, which the Company has the right to effectuate the interest payment in common shares. The effective interest rate on this convertible note was 28%.

On November 30, 2010 the holders of the July 2010 convertible notes agreed to extend the term of the notes for a period of six months past the maturity date (to May 30, 2011). As part of the extension, the holders were granted an increase in the interest rate of 2.5% for the six-month extension period. This brings the interest rate for the extension period to 12.5% per annum (not compounded). The interest on the original term as well as the extension is payable on the new maturity date of May 30, 2011. The Company has the right to effectuate the interest payment in common shares. All other provisions from the original convertible note have remained unchanged.

The following summarizes the Company's convertible debt:

	2010	2009
Opening balance	**$ 258,975**	$ -
Issuance of convertible debt (principal)	**1,170,000**	270,000
Repayment of convertible debt	**(270,000)**	-
Allocation to equity component - convertible debt	**(153,229)**	(14,700)
Allocation to debt value of convertible debt	**1,005,746**	255,300
Accretion expense	**142,175**	3,675
Unrecorded Accretion on 2009 convertible notes settled prior to maturity	**11,025**	-
Adjustment to January 2010 convertible note accretion expense	**3,675**	-
Liability component - convertible debt	**$ 1,162,621**	$ 258,975

6. Share Capital

The following table shows the transactions in the share capital as at December 31, 2010:

Authorized

Unlimited number of common shares voting, without nominal or par value.
Unlimited number of preferred shares special non-voting with no par value.

Common shares issued	Number		Amount
Balance, December 31, 2008	**22,209,230**	**$**	**6,946,953**
Private placement (i)	2,400,000		112,800
Private placement (ii)	1,150,000		24,035
Private placement (iii)	1,000,000		21,800
Issued to creditors (iv)	651,798		181,271
Issued for interest payment on convertible debt (v)	135,000		6,750
Tax effect of flow-through share renouncement (vi)	-		-
Balance, December 31, 2009	**27,546,028**	**$**	**7,293,609**
Issued for interest payment on convertible debt (vii)	992,647		6,750
Issued for interest payment on convertible debt (viii)	2,755,000		13,525
Issued as settlement for flow-through short fall (ix)	1,080,000		43,200
Issued for interest payment on convertible debt (x)	481,251		19,250
Issued for interest payment on convertible debt (xii)	1,013,159		19,250
Issued for interest payment on convertible debt (xiii)	1,921,053		19,250
Warrants exercised (xi)	3,350,000		67,000
Balance, December 31, 2010	**39,139,138**	**$**	**7,481,834**

Preferred shares issued	Number		Amount
Balance, December 31, 2009	**-**		**-**
Private placement (xiv)	70,000	$	350,000
Balance, December 31, 2010	**70,000**	**$**	**350,000**

Common shares shall be entitled to: 1) receive notice of, attend and vote at all meetings of the shareholders of the Corporation, 2) to receive as and when declared by the Directors of the Corporation, non-cumulative dividends.

2009 share capital transactions:

i) In April 2009, the Company completed a private placement of 2,400,000 non-brokered units at $0.05 per unit. Each unit is 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%, 2 year expected life, no expected dividends 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.

ii) In June 2009, the Company completed a private placement of 1,150,000 non-brokered units at $0.05 per unit. Each unit is 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%, 2 year expected life, no expected dividends and a volatility of 118%.

iii) In August 2009, the Company completed a private placement of 1,000,000 non-brokered units at $0.05 per unit. Each unit is 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%, 2 year expected life, no expected dividends and a volatility of 118%.

iv) In December 2009, the Company issued 651,798 shares in settlement of $181,271 to certain creditors. The common shares were issued by the Company with an effective price per share of $0.28 per share.

v) In October 2009, the Company issued 135,000 shares to cover the $6,750 interest payment related to the October 2009 Notes (as described in note 5). The common shares were issued by the Company with an effective price per share of $0.05 per share.

vi) In 2009, the Company did not renounce the $135,000 of required flow-through expenditures, relating to flow-through shares issued by the Company in 2008. The tax effect of $37,800 was charged to future income tax expense in 2009.

2010 share capital transactions:

vii) In January 2010, the Company issued 992,647 shares to cover the $6,750 interest payment related to the October 2009 Notes (as described in note 5). The common shares were issued by the Company with an effective price per share of $0.0068 per share.

viii) In January 2010, the Company issued 2,755,000 shares to cover the $13,775 interest payment related to the January 2010 Notes (as described in note 5). The common shares were issued by the Company with an effective price per share of $0.005 per share.

ix) In March 2010, the Company issued 1,080,000 shares to investors in relation to the renouncement shortfalls from flow-through issuances in 2007 and 2008 (as described in note 4). The common shares were issued by the Company with an effective price per share of $0.04 per share.

x) In April 2010, the Company issued 481,251 shares to cover the $19,250 interest payment related to the January 2010 Notes (as described in note 5). The common shares were issued by the Company with an effective price per share of $0.04 per share.

xi) In April and May 2010, the Company issued 3,350,000 shares upon the exercise of warrants for total proceeds of $67,000. The common shares were issued by the Company with an effective price per share of $0.02 per share.

xii) In August 2010, the Company issued 1,013,159 shares to cover the $19,250 interest payment related to the January 2010 Notes (as described in note 5). The common shares were issued by the Company with an effective price per share of $0.019 per share.

xiii) In October 2010, the Company issued 1,921,053 shares to cover the $19,250 interest payment related to the January 2010 Notes (as described in note 5). The common shares were issued by the Company with an effective price per share of $0.01 per share.

xiv) On November 9, 2010, the Company announced that the Company had entered into an agreement with Firebird Global Master Fund II Ltd. and issued 70,000 non-voting, non-convertible, and non-participating Series A Preference Shares at $5 per share, for aggregate proceeds to the Company of $350,000.The Series A Preference Shares issued will not be listed on any stock exchange, have no rights to vote at meetings of shareholders of the Company (except as provided by the Business Corporations Act (Ontario)) and are not convertible, but have preferential rights on liquidation, dissolution or winding up over the

Company's common shares. The Shares are redeemable by the Company at its sole discretion at the original subscription price.

xv) Note: For interest on convertible notes settled in common shares, the Company calculated the number of common shares based on the weighted average fair value of the common stock over the look back period for which the interest accrued.

Shares held in escrow

As of December 31, 2010, the number of common shares that are held in escrow is 581,250 (December 31, 2009 - 1,743,750). These shares will be released from escrow on March 1, 2011, as per the vesting schedule, and are included in the issued and outstanding shares as at December 31, 2010.

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7. Warrants

As at December 31, 2010, the Company had a total of 30,805,000 (2009 – 15,935,000) common share warrants outstanding. Warrant activity is summarized as follows:

Common shares issued:	Number	Amount
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	-
Sub-total	9,950,000	68,864
Warrants expired during 2009	(1,293,750)	(270,650)
Balance, December 31, 2009	**15,935,000**	**572,595**
Warrants issued during 2010:		
January 2010 with convertible debt	33,900,000	-
Warrants expired during 2010:		
July 2010	(800,000)	(83,285)
Warrants waived during 2010:		
October 2007 warrants	(1,000,000)	(81,169)
June 2009 warrants	(1,000,000)	(29,100)
August 2009 warrants	(1,000,000)	(28,200)
October 2009 warrants	(5,400,000)	-
Sub-total	24,700,000	(221,754)
Warrants exercised during 2010 (January 2010 convertible debt)	(3,350,000)	-
Warrants cancelled during assignment of the Framework Agreement (note 3)	(6,480,000)	(91,719)
Balance, December 31, 2010	**30,805,000**	**259,122**

As of December 31, 2010, the details of warrants outstanding are as follows:

	Exercise Price		Expiry	Number
September 2007 warrants	$	0.35	1-Sep-11	270,000
October 2007 warrants	$	0.35	1-Sep-11	2,110,000
December 2007 warrants	$	0.35	15-Nov-11	725,000
April 2009 warrants	$	0.10	1-May-12	1,000,000
June 2009 warrants	$	0.10	1-May-12	150,000
January 2010 warrants	$	0.02	26-Jan-12	26,550,000
Total warrants				**30,805,000**

Weighted average exercise price of warrants	$	0.06
Weighted average life of the warrants (years)		1.05

In 2010, investors in the Company waived 3,000,000 warrants. The warrants were issued by the Company in October 2007, June 2009, and August 2009 with exercise prices of $0.35, $0.10, and $0.10 respectively. The warrants had maturity dates September 1, 2011, May 1, 2012, July 1, 2012.

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.

8. Contributed surplus

Amounts recorded in contributed surplus in shareholders' equity relate primarily to the fair value of stock options, warrants and compensation options. Activity with respect to contributed surplus is summarized as follows:

		2010		2009
Balance, beginning of year	**$**	**940,296**	$	627,956
Equity component of convertible debt settled early		**14,000**		-
Warrants expired, waived, cancelled		**299,473**		270,650
Stock-based compensation		**11,680**		41,690
Balance, end of year	**$**	**1,265,449**	$	940,296

9. Stock options

Under the terms of the Company’s stock option plan (the “Plan") all options are granted with an exercise price equal to the market price on the day immediately preceding the date of grant less the maximum applicable discount allowed, with the minimum of $0.10 exercise price. The term of options is determined by the Board of Directors and is typically three or five years with a maximum term of 5 years. Options issued to consultants who perform investor relations activities will be subject to a vesting schedule whereby no more than 35% of the options granted may vest in any three month period. The maximum number of options authorized for issue shall be 10% of the outstanding shares in issue at the date of the option grant. Stock option activity is as follows:

The following reconciles Company's stock options:

	2010			2009		
	Number of options	**Weighted average exercise price**		Number of options	Weighted average exercise price	
Balance, beginning of period	**2,450,000**	**$**	**0.26**	2,000,000	$	0.41
Stock options issued	**400,000**		**0.10**	1,100,000		0.10
Stock options forfeited	**(2,020,000)**		**0.28**	-		
Stock options expired	**-**			(650,000)		0.46
Balance, end of period	**830,000**	**$**	**0.14**	2,450,000	$	0.26

Stock-based compensation

During the year ended December 31, 2010, the Company recognized a total of $11,680 (2009 - $41,690) relating to stock-based compensation for stock options. This amount is recorded as contributed surplus in shareholders' equity and is recorded as an expense or as deferred exploration expenditures. During the year ended December 31, 2010, $11,680 (2009 - $41,690) was recorded as expense.

These values were determined using the Black-Scholes option pricing model with the following weighted-average assumptions:

	2010	2009
Expected volatility	**118%**	118%
Expected option life (in years)	**5.0**	5.0
Risk-free interest rate	**3.00%**	3.00%
Expected dividend yield	**0%**	0%

2010

In March 2010, the Company issued 400,000 options to officers and employees. The value to the stock-based compensation was $11,680, which was based on the Black-Scholes pricing model with the assumptions of risk-free interest rate of 3.0%, volatility of 118%, and expected life of 5 years.

In 2010, 1,850,000 stock options were forfeited due to the resignation of officers, and directors of the Company as well as 170,000 stock options were forfeited due to the termination of contractors.

2009

In January 2009, the Company issued 200,000 options to officers and employees. The value to the stock-based compensation was $7,580, which was based on the Black-Scholes pricing model with the assumptions of risk-free interest rate of 3.0%, volatility of 118% and expected life of 5 years.

In August 2009, the Company issued 900,000 options to officers and employees. The value to the stock-based compensation was $34,110, which was based on the Black-Scholes pricing model with the assumptions of risk-free interest rate of 3.0%, volatility of 118%, and expected life of 5 years.

In 2009 the Shareholders of the Company have approved to change the Company's stock option plan to a rolling number of common shares equal to 10% of the issued number of outstanding shares. At the time of the conversion the Company stock option plan to a rolling plan, the Company had common share options available for grant of 3,620,493.

As of December 31, 2010, the details of stock options outstanding are as follows:

	Exercise Price	Expiry	Years	Number
April 2008 stock options	$ 0.50	15-Mar-13	2.2	50,000
July 2008 stock options	$ 0.25	29-Jul-13	2.6	100,000
August 2009 stock options	$ 0.10	31-Aug-14	3.7	300,000
March 2010 stock options	$ 0.10	28-Feb-15	4.2	380,000
Total stock options				**830,000**

Weighted average exercise price of stock options	$ 0.14
Weighted average life of the stock options (years)	3.7

10. Future Income Taxes

A reconciliation of the combined Canadian Federal and Provincial income tax rates with the Company's effective tax rate is as follows:

	2010	2009
Net loss before taxes	**$ 829,269**	$ 990,661
Current income tax rates	**29%**	29%
Expected tax recovery	**(240,488)**	(287,292)
Change in provision:		
Flow-through related obligations	**(88,012)**	26,100
Stock based compensation	**3,387**	12,090
Impact of tax loss not recognized	**325,113**	286,902
Future income tax expense	**$ -**	$ 37,800

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

	2010	2009
Share issue costs	**-**	45,519
Non-capital losses	**1,665,527**	1,548,571
Valuation allowance	**(1,665,527)**	(1,594,090)
Future income tax asset	**$ -**	$ -

As at December 31, 2010, the Company has non-capital losses for income tax purposes of approximately $ 6.7 million which are available to offset future years taxable income. The Company has claimed a valuation allowance due to uncertainty of realizing any potential assets related to future income tax.

The schedule of tax losses is as follows:

Tax Year - Loss incurred	Loss life (years)	Year of expiry	Non-capital losses
2005	10	2015	$ 886,801
2006	20	2026	45,489
2007	20	2027	1,257,261
2008	20	2028	2,993,270
2009	20	2029	659,288
2010	20	2030	820,000
			$ 6,662,109

11. Changes in Non-cash Working Capital

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

	December 31 2010	December 31 2009
Accounts receivable	**$ (19,042)**	$ 15,292
Prepaid expenses	**(6,418)**	12,499
Accounts payable and accrued liabilities	**(156,418)**	(10,179)
Part XII.6 tax	**(118,608)**	27,900
	$ (300,486)	$ 45,512

Supplemental cash flow information

Interest paid	**$ -**	$ -
Income taxes paid	**$ -**	$ -

(note: all interest on the convertible notes was settled in common shares of the Company)

12. Related party transactions

Related party transactions 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.

The Company has a management contract with Primary Venture Corporation, a company controlled by a Director and CEO of the Company whereby the Company pays up to $10,000 per month for management and advisory services.

For the year ended December 31, 2010, the Company paid Primary Venture Corporation cash of $80,000 (December 2009 - $ NIL). The Company has a payable to the Primary Venture Corporation as at December 31, 2010 of $ NIL (December 2009 – $ NIL).

During the first half of the year the Company had a common director, CEO and chairman with Diamond International Exploration Inc, and Galahad Metals Inc.

On July 12, 2010 the previous CEO, chairman and Director of Wedge Energy International Inc. resigned. Therefore as of July 12, 2010 Wedge Energy International Inc, Diamond International Exploration Inc. and

Galahad Metals no longer have any common directors and as a result there is no longer a related party relationship between the companies as Wedge Energy International Inc. no longer has significant influence over the activities of Galahad Metals Inc and Diamond International Exploration Inc. and vice versa.

During the first quarter of 2010, the Company repaid $67,000 to the previous CEO relating to amounts owed from 2009. These amounts were non-interest bearing and had no set repayment terms. During the first quarter of 2010 the Company issued 350,000 common shares to the previous CEO for the settlement of $102,706 of estimated investor obligations for failure on behalf of the Company to spend flow-through funds on eligible expenditures.

During 2010 the Company shared office space with Diamond International Exploration Inc., Desiree Resources Inc. and Galahad Metals Inc. The Company has signed an agreement in which all shared costs are evenly allocated between the companies. As at September 15, 2010 Diamond International Exploration Inc had moved its office to Vancouver and as a result no longer share costs with Wedge Energy International Inc. All payables and receivables between the Company and Diamond International Exploration Inc. had been settled on September 15, 2010.

For the year ended December 31, 2010, the Company incurred shared costs of $4,997 (2009 - $ NIL) with Desiree Resources Inc. and Galahad Metals Inc. At December 31, 2010 the Company has no receivable or payable with Desiree Resources Inc. for shared costs (2009 –$ NIL) and a payable to Galahad Metals Inc. of $2,654 (2009 – receivable of $2,138).

As of December 31, 2010, $ 149,000 (2009 - $149,000) was included in the accounts payable and accrued liabilities balance related to historical amounts from 2008 for accounting, administrative fees and software solutions to Pandell Tech. Corporation of which a previous director of the Company was an officer.

The Company is a related party with the Firebird Global Master Funds, through one of its directors as that director is a key member of the management team of the Firebird Global Master Funds.

Firebird Global Master Fund, Ltd. and Firebird Global Master Fund II, Ltd. (together as “Firebird”) are related parties based on their joint ownership of over 10% of the Company’s common shares. In the October 2009 Notes issuance, Firebird invested $200,000 of the total $270,000 principal and received the related interest payment in the form of shares in October 2009 and January 2010. In the January 2010 Notes issuance, Firebird invested $450,000 of the total $770,000 principal and received the related interest payment in the form of shares in January 2010. As described in note 5, the proceeds of the January 2010 Convertible Notes were used to repurchase all of the October 2009 Notes. The interest on the January 2010 Notes was paid in shares and on quarterly basis. The January 2010 Notes mature on January 26, 2011 and have an interest rate of 10% per annum (simple interest). On January 26, 2011 the holders of the Notes agreed to extend the maturity date of the Notes for an additional 6 month term, with a new maturity date of July 26, 2011, along with the extension the Note holders received an increase of 2.5% in the interest rate (12.5%) on the extension period.

In the third quarter Firebird Global Master Fund, Ltd purchased in aggregate $400,000 of additional convertible notes of the Company (note 5). The interest on the convertible notes are payable in cash or common shares of the Company at the Company’s option based on the weighted average price of the market value of the common shares in the period during which the interest accrued. The Notes are convertible at the option of the holder at any time based on a conversion price of $0.05 per common share. The Note matures on November 30, 2010. On November 30, 2010 the holders of the Notes agreed to extend the maturity date of the Notes for an additional 6 month term, with a new maturity date of May 30, 2011, along with the extension the Note holders received an increase of 2.5% in the interest rate (12.5%) on the extension period.

Firebird Global Master Fund Ltd. purchased 70,000 non-voting, non-convertible, and non-participating Series A Preference Shares at $5 per share, for aggregate proceeds to the $350,000. The Series A Preference Shares issued are not listed on any stock exchange, have no rights to vote at meetings of shareholders of the Company (except as provided by the Business Corporations Act (Ontario)) and are not convertible, but have preferential rights on liquidation, dissolution or winding up over the Company’s common shares. The Shares are redeemable by the Company at its sole discretion at the original subscription price.

13. 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:

	2010	2009
Common shares	**$ 7,481,834**	$ 7,293,609
Preferred shares	**350,000**	-
Convertible debt (total principal)	**1,170,000**	270,000
	$ 9,001,834	$ 7,563,609

The Company currently has no significant revenues; as such the Company is dependent upon external financing to fund its activities. In order to carry future projects and pay for administrative costs, the Company will need to raise additional funds. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company is reasonable.

The Company may make adjustments to its capital structure based on the funds available, strategic objectives, and potential business opportunities. To manage its capital, the Company may update its spending programs, operating expenditure plans, issue new common shares, or obtain debt financing.

The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. There were no changes in the Company's approach to capital management for year ended December 31, 2010. The Company is not subject to externally imposed capital requirements.

14. Financial instruments

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, part XII.6, flow-through related obligations, and convertible debenture. The fair value of these instruments approximates their carrying value, given their short-term nature. It is management's opinion that the Company is not exposed to significant credit risks arising from these financial instruments.

Hierarchy of Financial Instruments

The Company categorizes its financial instruments, measured at fair value in the consolidated balance sheet, including its financial assets, financial liabilities and derivative financial instruments, into a three-level fair value measurement hierarchy as follows:

Level 1: The fair value is determined directly by reference to unadjusted quoted prices in active markets for identical assets and liabilities.

Level 2: The fair value is estimated using a valuation technique based on observable market data, either directly or indirectly.

Level 3: The fair value is estimated using a valuation technique based on unobservable data.

Cash and cash equivalents, recognized in the balance sheet at fair value, is classified following level 1.

<u>Risk management</u>

The Company thoroughly examines the various financial risks to which it is exposed and assesses the impact and likelihood of those risks. These risks include credit risk, liquidity risk, interest rate risk, commodity and market price risk and foreign currency risk. Where material, these risks are reviewed and monitored by the Board of Directors.

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

a) Credit risk
Credit risk arises due to the potential for one party to a financial instrument to fail to discharge it obligations and cause the other party to suffer a loss. Financial instruments that potentially subject the Company to credit risk consist of cash and cash equivalents, and receivables. The maximum credit risk represented by the Company's financial assets is represented by their carrying amounts. The Company holds its cash and cash equivalents with financial institutions that are believed to be creditworthy.

Concentration of credit risk exists with respect to the Company's cash and cash equivalents as all amounts are held at a single major Canadian financial institution. The Company's concentration of credit risk thereto is as follows: Bank accounts as at December 31, 2010 $ 182,985 (2009 - $ 37,585).

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. Convertible notes accrue interest at a fixed rate of 12.5% and they will be renewable in May and July 2011. Accordingly, in relation with convertible notes, there is an exposure to fair value variation. There is minimal risk that the Company would recognize any loss as a result of an increase in the fair value of the short-term convertible notes due to the short term nature. The Company does not use financial derivatives to decrease its exposure to interest risk.

c) Foreign currency risk
Foreign exchange risk arises from future commercial transactions and recognized assets and liabilities denominated in a currency that is not the entity's functional currency. The risk is measured using cash flow forecasting. The Company's functional and reporting currency is the Canadian dollar and major purchases are transacted in Canadian dollars. The Company as at December 31, 2010 and 2009 had no amount of accounts payable and cash in United States Dollars.

d) Liquidity risk
Liquidity risk arises when adequate funds cannot be raised to settle liabilities and commitments when they become payable. The Company manages its liquidity by maintaining adequate cash and cash equivalents and marketable securities to meet anticipated cash needs. As at December 31, 2010 the Company did not have sufficient cash and cash equivalents, in the amount of $182,985 and amounts receivable of $23,047, in order to meet short-term liabilities (note 1). At December 31, 2010, the Company had accounts payable and accrued liabilities of $381,660 (including interest on convertible notes) and convertible notes which come due in 2011 of $1,170,000 which will be paid in fiscal 2011. The Company will require significant cash requirements to meet its administrative overhead costs and acquire new mineral interests in 2011. This will require the Company to obtain additional financing in 2011 to continue exploration work on the mineral properties. The liquidity risk is reduced since the interest on the convertible debt can be repaid in the form of shares (as described in note 5). The Company prepares expenditure budgets, which are regularly monitored and updated as considered necessary.

e) Commodity and Market risk
Market risk is the risk of loss that arises from unfavorable changes in the quoted market price of market-traded financial instruments. The Company's marketable securities are subject to market risk. Commodity price risk is defined as the potential adverse impact on economic value due to commodity price movements and volatilities.

f) Fair values of financial assets and liabilities
Financial instruments consist of cash, accounts receivable, accounts payable and accrued liabilities, Part XII.6 tax payable, flow through related obligations and convertible debt. At December 31, 2010 and 2009 there were no significant differences between the carrying amounts reported on the balance sheet and their estimated fair values.

Sensitivity analysis

Based on management's knowledge and experience of the financial markets, the Company believes the following movements are "reasonably possible" over a one year period:

• Cash and cash equivalents. If interest rates were to change by 1%, the increase or decrease in the net loss would not be significant to the Company’s results.

• Convertible notes. If interest rates were to change by 1%, the increase or decrease of $11,700 in the net loss would not be significant to the Company’s results.

• The Company does not hold significant balances in foreign currencies to give rise to exposure to foreign exchange risk.

• Price risk is remote since the Company is not a producing entity nor does it hold any mineral properties as at December 31, 2010.

15. Commitments and contingencies

The Company’s operations are governed by governmental laws and regulations regarding environmental protection. Environmental consequences are hardly identifiable, in term of level, impact or deadline. At the present time and to the best knowledge of its management, the Company is in conformity with the laws and regulations in effect. Restoration costs will be accrued in the financial statements only when they will be reasonably estimated and will be charged to the earnings at the time.

The Company has been in litigation with Neo Exploration, a former joint venture partner, on the Montana property licensed by the joint venture in 2007. In June 2007 Wedge Energy International Inc. advised Neo Exploration that Wedge was no longer interested in pursuing any further expenditures on the jointly held Montana property and that the joint venture would be wound up. Wedge asked Neo to settle the outstanding issue of repayment of the $22,758 cash call paid by Wedge in March of 2007. As at December 31, 2010 Neo has not made any repayment of the outstanding cash call. Subsequent to year end Neo has settled the claim (refer to note 16).

16. Subsequent events

On January 26, 2011 the holders of the January 2010 convertible notes agreed to extend the term of the notes for a period of six months past the maturity date (July 26, 2011). As part of the extension of the holders were granted an increase in the interest rate of 2.5% for the six month extension period. This bringing interest rate on the extension period to 12.5% per annum (not compounded). The interest on the extension is payable on the new maturity date of July 26, 2011. The Company has the right to effectuate the interest payment in common shares. All other provisions from the original convertible note have remained unchanged.

On February 4, 2011 the Board of Directors accepted a proposal from Neo Exploration to settle the June 2007 claim in which Neo Exploration paid the Company a cash settlement of $11,379 (half of the amount of the civil claim filed with the Provincial Court of Alberta) in exchange for a full release and settlement of this and all matters between Wedge Energy International Inc. and Neo Exploration.