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Auditors' Report

To the Shareholders of
Wedge Energy Inc.:

We have audited the balance sheet of Wedge Energy Inc., as at December 31, 2006 and the statements of loss and deficit and cash flows for the period from date of incorporation on February 10, 2006 to December 31, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the 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 financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2006 and the results of its operations and its cash flows for the period then ended in accordance with Canadian generally accepted accounting principles.

BDO Dunwoody LLP

Chartered Accountants

Calgary, Alberta
May 11, 2007

Wedge Energy Inc.
(an exploration stage company)
Balance Sheet
As at December 31, 2006

Assets		
Current		
Cash and cash equivalents	$	682,675
Accounts receivable		50,099
Prepaid expenses		8,274
		741,048
Deferred costs *(note 3)*		119,343
Property and equipment *(note 4)*		1,124,066
	$	1,984,457
Liabilities		
Current		
Accounts payable and accrued liabilities *(note 11)*	$	405,792
Asset retirement obligation *(note 5)*		35,918
		441,710
Shareholders' Equity		
Share capital *(note 6)*		3,133,013
Warrants *(note 7)*		258,609
Contributed surplus *(note 8)*		19,133
Deficit		(1,868,008)
		1,542,747
	$	1,984,457

Nature of operations *(note 1)*
Subsequent events *(note 13)*

On behalf of the Board of Directors

signed “Judith Lentin”	signed “Robin Dow”
Director	Director

See accompanying notes

Wedge Energy Inc.

(an exploration stage company)

Statement of Loss and Deficit

From date of incorporation on February 10, 2006 to December 31, 2006

Revenue		
Interest income	$	14,077
Expenses *(note 11)*		
Consulting fees		186,138
Geological consulting		258,018
Professional fees		176,679
Travel and promotion		99,185
Office		59,979
Technology and maps		8,198
Investor relations		37,166
Depletion and depreciation *(note 4)*		1,073,311
Foreign exchange gain		(16,589)
		1,882,085
Net loss for the period and deficit, end of period	$	(1,868,008)
Net loss per share *(note 6)*	$	(0.21)

See accompanying notes

Wedge Energy Inc.

(an exploration stage company)

Statement of Cash Flows

From date of incorporation on February 10, 2006 to December 31, 2006

Operating activities		
Net loss for the period	$	(1,868,008)
Add back non-cash item:		
Depletion and depreciation		1,073,311
		(794,697)
Change in non-cash working capital *(note 10)*		142,460
		(652,237)
Financing activities		
Proceeds from share issuances		3,619,550
Share issue costs		(208,795)
Change in non-cash working capital *(note 10)*		(10,000)
		3,400,755
Investing activities		
Expenditures of property and equipment		(2,161,459)
Deferred costs		(119,343)
Change in non-cash working capital *(note 10)*		214,959
		(2,065,843)
Cash and cash equivalents, end of period	$	682,675

See accompanying notes

1. Incorporation and nature of operations

Wedge Energy Inc. (the "Company") was incorporated as a private company under the *Business Corporations Act* (Alberta) on February 10, 2006. The Company is engaged in the exploration for and production of petroleum and natural gas in Western Canada and internationally. Since inception, the Company's efforts have been focused on raising capital and evaluating and acquiring oil and gas properties or businesses.

The Company is in the process of developing and exploring its oil and gas properties and has not yet determined whether these properties contain oil and gas resources that are economically recoverable. The recoverability of amounts shown for oil and gas properties is dependant upon the existence of economically recoverable reserves, securing and maintaining the title and beneficial interest in the properties, the ability of the Company to obtain necessary financing to complete the development and upon future profitable production of proceeds from disposition of the oil and gas properties. There are no guarantees that such conditions will be met. The amount shown as oil and gas properties represent net costs to date, less amounts written off and do not necessarily represent present or future values.

These financial statements have been prepared on a going concern basis which assumes the Company will be able to realize its assets and discharge its liabilities in the normal course of business. These financial statements do not reflect the adjustments that would be necessary if the Company was unable to continue operations and these adjustments may be significant.

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 dependent upon future events, the preparation of periodic financial statements necessarily involves the use of estimates and approximations. Accordingly, actual results could differ from those estimates. The financial statements have, in management's opinion, been properly prepared using careful judgment within reasonable limits of materiality and within the framework of the significant accounting policies summarized below:

a) Cash and cash equivalents

Cash and cash equivalents includes cash balances with banks and term deposits with original maturities of three months or less.

b) Deferred costs

The Company defers costs associated with corporate transactions until such time as the transaction is completed, upon which the costs are included as part of the consideration paid. Should the Company fail to complete a transaction for which costs have been deferred, the deferred costs would be expensed in the statement of loss and deficit at the time the related transaction is terminated.

c) Property and equipment

(i) Capitalized costs

The Company follows the full cost method of accounting for its petroleum and natural gas operations. Under this method, all costs related to the exploration for and development of petroleum and natural gas reserves are capitalized. Costs include lease acquisition costs, geological and geophysical expenses and costs of drilling both 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 than 20%.

2. Significant accounting policies (continued)

c) Property and equipment (continued)

(ii) Depletion and depreciation

Depletion and depreciation of undeveloped land, seismic and producing assets, net of estimated salvage or residual value, is provided using the unit-of-production method based upon estimated gross proven petroleum and natural gas reserves as determined by independent engineers. In

determining its depletion base, the Company includes the cost of undeveloped land at the rate of 20% per year. For depletion and depreciation purposes, relative volumes of petroleum and natural gas production and reserves are converted at the energy equivalent conversion rate of six thousand cubic feet of natural gas to one barrel of crude oil.

Office equipment is depreciated on a declining balance basis over its estimated useful life at rates varying from 20% to 45%.

(iii) Impairment test

In applying the full cost method, the Company calculates a ceiling test whereby the carrying value of property and equipment is compared to the sum of the undiscounted cash flows expected to result from the future production of proven reserves and the cost, less any impairment of unproved properties. Cash flows are based on third party quoted forward prices, adjusted for transportation and quality differentials. Should the ceiling test result in an excess of carrying value, the Company would then measure the amount of impairment by comparing the carrying amounts of property and equipment to an amount equal to the estimated net present value of future cash flows from proven plus probable reserves and the cost of unproved properties. A risk-free interest rate is used to arrive at the net present value of the future cash flows. Any excess carrying would be recorded as a permanent impairment.

Undeveloped land is excluded from the ceiling test and a separate impairment test is performed.

d) Asset retirement obligation

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 statement of operations. The liability is also adjusted due to revisions in either the timing or the amount of the original estimated cash flows associated with the liability. The increase in the carrying value of the asset is amortized using the unit of production method based on estimated gross proved reserves as determined by independent engineers. Actual costs incurred upon settlement of the asset retirement obligations are charged against the asset retirement obligation to the extent of the liability recorded.

e) Joint operations

Substantially all of the exploration and production activities of the Company are conducted jointly with others. These financial statements reflect only the Company's proportionate interest in such activities.

2. Significant accounting policies (continued)

f) Future income taxes

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

g) Revenue recognition

Interest income is recognized in the statement of loss as it is earned.

h) Stock-based compensation

Options to purchase common shares are granted to third parties as compensation for financing fees in relation to private placements of the Company's securities, the terms of which are determined by management at the time of grant. The fair value of such options is estimated at the time of grant using the Black-Scholes pricing model and is recorded as share issue costs with a corresponding amount recorded as contributed surplus. Upon the exercise of the 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 vested options expire, previously recognized share issue costs associated with such stock options is not reversed.

i) Measurement uncertainty

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 period. Accounts receivables are stated after evaluation as to their collectibility and an appropriate allowance for doubtful accounts is provided where considered necessary. The amounts recorded for depletion and depreciation of property and equipment and the ceiling test are based on estimates of gross proved reserves, production rates, petroleum and natural prices, future costs and other relevant assumptions. The amounts recorded for stock-based compensation are estimated using the Black-Scholes model based on estimates of assumptions for expected volatility and risk free interest rates. By their nature, estimates are subject to measurement uncertainty, and the impact in the financial statements of future periods could be material. Management's estimates and assumptions are reviewed periodically and, as adjustments become necessary, they are reported in earnings in the periods in which they become known.

j) Flow-through shares

Share capital includes flow-through shares issued pursuant to certain provisions of the Income Tax Act (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 provide no income tax deduction to the Company. Share capital is reduced and a future income tax liability is recorded for the estimated future tax cost of the renounced expenditures, on the date that the Company files the renouncement documents with the tax authorities.

2. Significant accounting policies (continued)

k) Per share amounts

The treasury stock method of calculating diluted per share amounts is used whereby any proceeds from the exercise of in-the-money stock options or warrants are assumed to be used to purchase, for cancellation, common shares of the Corporation at the average market price during the year. Basic loss per share is computed by dividing net loss by the weighted average number of common shares outstanding during the year. Diluted per share amounts reflect the potential dilution that could occur if stock options or warrants to purchase common shares were exercised and converted to common shares.

3. Deferred costs

Deferred costs represent $63,620 charged by a firm engaged as the Company's sponsor with respect to the Company's anticipated merger with another company, $921 on a geological report for the Venture exchange (the "TSX-V") , $10,000 non-refundable deposit paid to an agent for transaction costs and $44,802 on legal fees paid on the anticipated merger (see note 13).

4. Property and equipment

	December 31, 2006		
	Cost	Accumulated depletion and depreciation	Net
Office equipment	$ 6,949	$ 1,200	$ 5,749
Petroleum and natural gas properties	2,190,428	1,072,111	1,118,317
	$ 2,197,377	$ 1,073,311	$ 1,124,066

The Company has capitalized $80,725 of general and administrative costs to date. As at December 31, 2006, the Company's petroleum and natural gas properties were comprised of undeveloped land and drilling costs.

In accordance with stated accounting policies, the Company has performed an impairment test at December 31, 2006, and determined there was a ceiling test impairment of $1,072,111. For purposes of the December 31, 2006 impairment test, the following benchmark prices were used:

	Gas Reference Price ($)
2007	6.90
2008	7.77
2009	7.48
2010	7.48
2011	7.48
2012	7.48

Average % change thereafter does not exceed 2%

5. Asset retirement obligation

The Company estimated the carrying amount of the obligation associated with the retirement of its property and equipment to be $35,918 as at December 31, 2006, all of which is related to liabilities incurred.

The asset retirement obligation was estimated based on undiscounted abandonment costs of $45,101, a credit adjusted risk-free discount rate of 8%, inflation of 2% and a weighted average expected timing of cash flows of 3 years.

6. Share capital

a) Authorized

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

b) Issued

Class A common shares	Number of shares		Amount
Founder's shares *(i)*	5,275,000	$	39,250
Private placement *(ii)*	3,908,800		1,954,400
Private placement *(iii)*	700,000		415,954
Private placement *(iv)*	218,700		218,700
Private placement *(v)*	1,000,000		600,437
Private placement *(vi)*	4,200		4,200
Flow through shares *(vii)*	128,000		128,000
Share issue costs	–		(227,927)
Balance – December 31, 2006	11,234,700	$	3,133,013

(i) In January and February 2006, the Company completed the founder's equity of 1,500,000 common shares at $0.001 per share for gross proceeds of $1,500 and 3,775,000 common shares at $0.01 per share for gross proceeds of $37,750. Officers and directors subscribed for 3,675,000 common shares.

(ii) During March to June, 2006, the Company completed the private placement of 3,908,800 common shares at $0.50 per share for gross proceeds of $1,954,400.

(iii) In August and September 2006, the Company completed the private placement of 700,000 units at $0.75 per unit for gross proceeds of $525,000. Each unit consists of one common share and one common share purchase warrant. Each common share purchase warrant entitles the holder to purchase one common share of the Company at an exercise price of $1.00 per share on or before August 31, 2008. $109,046 has been ascribed to the value of the warrants and the remaining amount of $415,954 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 4.11%; weighted average life of 2 years; dividend yield of nil; and expected volatility of 50%.

6. **Share capital** (continued)

b) **Issued** (continued)

(iv) In October and November 2006, the Company completed the private placement of 218,700 common shares at a price of $1.00 per common share for total gross proceeds of $205,200 Canadian and $12,150 US. A director and officer of the Company received $3,235 of financing fees in relation to these placements. In addition, the Company paid cash compensation of $3,375 and issued 6,750 compensation share options to two unrelated parties in connection with the private placement. Each compensation share option entitles the holder to acquire one common share at an exercise price of $1.00 on or before November 1, 2007.

(v) In October 2006, the Company completed the private placement of 1,000,000 units at $0.75 per unit for gross proceeds of $750,000. 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 $1.00 per share on or before October 1, 2008. $149,563 has been ascribed to the value of the warrants and the remaining amount of $600,437 has been ascribed to the value of the common shares. The ascribed value of the warrants was estimated using the Black-Scholes pricing model assuming a risk-free interest rate of 4.11%; weighted average life of 2 years; dividend yield of nil; and expected volatility of 50%.

In connection with the closing of this private placement, a director and officer of the Company received $7,500 in financing fees. In addition, the Company paid cash compensation of $37,500 and issued 100,000 compensation unit options to an unrelated party. Each compensation unit option entitles the holder to acquire one unit, as described above, at an exercise price of $0.75 per unit on or before October 1, 2007.

The private placement obligates the Company to complete an “Exit Event”, which is defined to include the listing on the TSX-V of the Company’s common shares that is to be formed as a result of business combination of the Company and Alyattes Enterprises Inc. (“Alyattes”) or the listing of the Company’s common shares on the Toronto Stock Exchange or the TSX-V on or before December 31, 2006, failing which the Company will be required to issue a number of common shares that is equal to 2% of the units subscribed for under the aforementioned closing and a further 2% every thirty days thereafter until such time that an Exit Event is completed.

(vi) In December 2006, the Company completed the private placement of 4,200 common shares at $1.00 per share for gross proceeds of $4,200.

(vii) In December 2006, the Company completed the private placement of 128,000 flow-through shares at a price of $1.00 per share for gross proceeds of $128,000. The Company has until December 31, 2007 to incur $128,000 of qualifying flow-through expenditures, none of which had been incurred as at December 31, 2006.

6. Share capital (continued)

c) Compensation options

The Company has granted compensation share options in connection with the closing of private placements. Each option vests immediately and entitles the holder to acquire one common share at the specified exercise price. Compensation share options outstanding and exercisable at December 31, 2006 are summarized as follows:

Date of grant	Number of options	Exercise price	Estimated fair value	Expiry date
April 2006	23,700	$ 0.50	$ 2,465	April 1, 2007
October 2006	6,750	1.00	1,472	October 1, 2007
	30,450	$ 0.61	$ 3,937	

The Company has also granted 100,000 compensation unit options. Each compensation unit option vests immediately and entitles the holder to acquire one unit at an exercise price of $0.75 per unit on or before October 1, 2007. 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 $1.00 per share on or before October 1, 2008. The fair value of the unit options has been estimated to be $15,196.

The fair value estimates of compensation share options and compensation unit options were performed using the Black-Scholes pricing model based on the following significant assumptions:

Risk-free interest rate	4.11%
Expected volatility	50%
Expected life	1 year
Dividend yield	Nil

The fair values of compensation share options and compensation unit options have been recorded as share issue costs.

d) Per share amounts

Per share calculations are based on the weighted average number of common shares outstanding during the period of 8,747,249. In computing diluted per share amounts, all of the Company's outstanding options and warrants have been excluded as they are anti-dilutive.

7. Warrants

Common share purchase warrants outstanding and exercisable at December 31, 2006 are summarized as follows:

Issue date	Number of warrants	Exercise price	Ascribed value	Expiry date
August 2006	700,000	$1.00	$ 109,046	August 31, 2008
October 2006	1,000,000	1.00	149,563	October 1, 2008
	1,700,000	$ 1.00	$ 258,609	

8. Contributed surplus

Compensation share options *(note 6(c))*	$	3,937
Compensation unit options *(note 6(c))*		15,196
Balance – December 31, 2006	$	19,133

9. Income taxes

The Company's computation of future income tax (recovery) provision for the period from incorporation on February 10, 2006 to December 31, 2006 is as follows:

Expected income tax recovery at 34.5%	$	(644,463)
Non-deductible items		325
Resource allowance		24,387
Rate adjustments and other		18,198
Valuation allowance		601,553
	$	–

The components of the Company's net future income tax asset as at December 31, 2006 are as follows:

Property and equipment	$	311,218
Non-capital losses		228,076
Asset retirement obligation		10,775
Share issue costs and financing fees		51,484
Valuation allowance		(601,553)
	$	–

As at December 31, 2006, the Company has approximately $2,100,000 of tax pools and $760,000 of non-capital losses available for deduction against future taxable income. Non-capital losses expire in 2026.

10. Change in non-cash working capital

The change in non-cash working capital for the period from incorporation on February 10, 2006 to December 31, 2006 is as follows:

Accounts receivable	$	(50,099)
Prepaid expenses		(8,274)
Accounts payable and accrued liabilities		405,792
	$	347,419

The change in non-cash working capital has been allocated to the following activities:

Operating	$	142,460
Financing		(10,000)
Investing		214,959
	$	347,419

11. 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 established and agreed to by the related parties. Except as disclosed elsewhere in these financial statements, the Company had the following related party transactions:

a) During the period ended December 31, 2006, the Company was charged $585,150 for administrative, geological, accounting, legal and consulting services by officers and directors of the Company and companies controlled by officers and directors of the Company. Of this amount, $133,806 is included in accounts payable at December 31, 2006.

b) During the period ended December 31, 2006, the Company paid $121,225 to an officer and director of the Company for financing fees in relation to private placements of the Company's shares. These fees are included in share issue costs.

c) The Company has signed an agreement granting an overriding royalty of 3% to a director of the Company on certain leases not yet determined.

12. Financial instruments

a) Fair values of financial assets and liabilities

Financial instruments consist of cash and cash equivalents, accounts receivable and accounts payables and accrued liabilities. At December 31, 2006, there are no significant differences between the carrying amounts reported on the balance sheet and their estimated fair values. The Company has not entered into any hedging contracts.

b) Interest rate risk

The Company is not exposed to any interest rate risk.

c) Credit risk

Accounts receivable are in respect of Goods and Services Tax. The Company views the credit risk on this amount as minimal.

13. Subsequent events

a) 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 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. As at the time of this audit report, $250,000 of subscription proceeds was receivable.

b) 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. The Company has until December 31, 2008 to incur $122,500 of qualifying flow-through expenditures.

13. Subsequent events (continued)

c) Pursuant to a letter of intent (the "Letter of Intent") dated February 27, 2006 and subsequently amended for the purpose of extending the expiry date thereof, the Company agreed to acquire all of the shares of Alyattes through a share exchange. The original terms of the Letter of Intent contemplated that each issued and outstanding share of the Company would be exchanged for 1.0 share of Alyattes, after which time Alyattes and the Company would merge. The transaction was subsequently re-cast as a three-cornered amalgamation involving the Company, Alyattes and 127639 Alberta Ltd. ("Alyattes Sub"), a wholly-owned subsidiary of Alyattes (the "Amalgamation"), whereby Alyattes would consolidate all of its outstanding shares on the basis of three new common shares in exchange for every four issued and outstanding shares and change its name to "Wedge Energy International Inc.", then issue shares to holders of common shares of the Company as consideration for the Company's amalgamation with Alyattes Sub (with the company that is formed upon the amalgamation of the Company and Alyattes Sub being named "Wedge Energy Inc."). On October 25, 2006, the Company held a special meeting of its shareholders to approve the amalgamation and subsequent merger agreement between the Company, Alyattes and a wholly-owned subsidiary of Alyattes. On January 31, 2007, Alyattes consolidated its capital and changed its name as aforesaid, and the Amalgamation was completed in its entirety on February 1, 2007. Upon closing of the Amalgamation, Wedge Energy International Inc. (formerly Alyattes) issued an aggregate of 12,373,700 common shares to the former shareholders of the Company, 2,200,500 common share purchase warrants and 130,450 broker warrants. The aforementioned warrants are exercisable at a price of $1.00, with 700,000 of such warrants being exercisable on or before August 31, 2008 and the remaining 1,000,000 being exercisable on or before October 1, 2008. The aforementioned broker warrants have exercise prices ranging from $0.50 to $1.00 and expiry dates ranging from April 1, 2007 to November 1, 2007. As discussed in note 4, the Company has paid a $10,000 deposit on account of the Letter of Intent and has accrued a $64,000 fee charged by a firm engaged as the Company's sponsor in connection with the Company's application for listing on the TSX-V. In addition, the Company has paid $44,802 of legal fees in order to complete the Amalgamation. The financial consequences of the Amalgamation do not materially impact these financial statements.

The following events are transactions of either Wedge Energy International Inc. or Wedge Energy Inc.:

d) In March 2007, the Company obtained an unsecured promissory note on funds advanced to an unrelated party to attempt to secure licenses overseas. The party is in litigation to obtain 100% of the licenses to attempt to secure a joint venture agreement on certain overseas oil and gas licenses. Litigation is ongoing and undeterminable at the date of this audit report. The Company has expensed $38,686 in general and administrative costs as at December 31, 2006 and has advanced an additional $705,000 US subsequent to year end. These advances are unsecured, and bear interest at 5% and are being used to fund the costs of litigation. If the litigation is successful, the Company will seek to negotiate the terms of a joint venture. If it is unsuccessful, the Company will demand repayment of the note and all outstanding indebtedness.

e) In April 2007, the Company completed a private placement of 50,000 flow-through shares at a price of $1.25 for gross proceeds of $62,500. The Company has until December 31, 2008 to incur $62,500 of qualifying flow-through expenditures. A director subscribed for 40,000 flow-through shares. In addition in the same private placement the Company also raised $1,146,500 when it issued 1,146,500 units consisting 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 on or before March 1, 2009. A director subscribed for 25,000 units.

13. Subsequent events (continued)

f) Two directors of the Company and the Company have been named in a lawsuit in regards to the start up and introduction of key management team of the Company. Litigation is ongoing and quantum and likelihood of success undeterminable at the date of this audit report.

g) Subsequent to year end, the Company entered into a joint venture with an unrelated company to drill certain oil and gas prospects in Montana. The Company formed a Limited Partnership with a general partner company incorporated in the US. The Company advanced $915,117 US to the unrelated company as cash calls to cover the cost of drilling three well and related seismic. The Company was refunded $147,000 US as the seismic program was cancelled.

h) Subsequent to year end, the Company entered into a participation agreement in the Three Hills area of Alberta. The Company has elected to participate in a fifty percent interest of the unrelated company's eighty percent interest to earn an interest in the Crown Petroleum and Natural Gas rights in the Farmout Agreement. The Company has advanced $279,190 to the unrelated company as a cash call.