

**BERKLEY RENEWABLES INC.  
(Formerly Berkley Resources Inc.)**

**CONSOLIDATED FINANCIAL STATEMENTS**

**For the Years Ended December 31, 2011 and 2010**

*(Expressed in Canadian Dollars)*

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## Management's Responsibility

The consolidated financial statements and other financial information included in the consolidated financial statements are the responsibility of, and have been prepared by, the management of Berkley Renewables Inc. (the "Company"). To fulfill this responsibility, the Company maintains appropriate systems of internal control, policies and procedures. These systems of internal control, policies and procedures help ensure that the Company's reporting practices and accounting and administrative procedures provide reasonable assurance that the financial information is relevant, reliable, and accurate, and that assets are safeguarded and transactions are executed in accordance with proper authorization. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards. When alternative methods exist, the Company has chosen those that it deems most appropriate in the circumstances, in order to ensure that the financial statements are presented fairly in all respects. Where appropriate, these consolidated financial statements reflect estimates based on judgments of management.

MNP LLP, the independent auditors, have examined the consolidated financial statements of the Company. The independent auditors' responsibility is to express a professional opinion on the fairness of the consolidated financial statements. The auditors' report outlines the auditors' opinion and the scope of their examination and their report follows.

The consolidated financial statements have also been reviewed by the Directors of Berkley Renewables Inc. and by its Audit Committee. The Audit Committee is comprised of independent directors, and meets periodically during the year with the independent auditors and management. The independent auditors have full and unrestricted access to the Audit Committee.

Matthew Wayrynen  
\_\_\_\_\_  
Chief Executive Officer

Pamela Lynch  
\_\_\_\_\_  
Chief Financial Officer

April 25, 2012

## Independent Auditors' Report

To the Shareholders of Berkley Renewables Inc.:

We have audited the accompanying consolidated financial statements of Berkley Renewables Inc. (formerly Berkley Resources Inc.) and its subsidiary (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010, and the consolidated statements of comprehensive loss, changes in shareholders' equity, and cash flows for the years ended December 31, 2011 and December 31, 2010, and notes comprising a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, 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.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits 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 whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 assessing the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence obtained in our audits 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 Berkley Renewables Inc. and its subsidiary as at December 31, 2011, December 31, 2010 and January 1, 2010, and their financial performance and cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

### *Emphasis of Matter*

Without qualifying our opinion, we draw attention to Note 1 of the consolidated financial statements which indicates that the Company has a total comprehensive loss for the year of \$64,847, accumulated deficit of \$16,414,742 and negative cash flows from operating activities of \$1,137,642. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern.

Calgary, Alberta  
April 25, 2012

*MNP LLP*  
Chartered Accountants

**MNP**

**BERKLEY RENEWABLES INC. (Formerly Berkley Resources Inc.)**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

	As at December 31, 2011	As at December 31, 2010 (Note 21)	As at January 1, 2010 (Note 21)
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	\$ 674,327	\$ 1,127,719	\$ 839,811
Trade and other receivables (Note 18)	132,367	84,052	130,015
Share subscriptions receivable	-	-	191,000
Marketable securities	53,717	1,157,016	-
Prepaid expenses	56,855	81,009	65,227
<b>Total current assets</b>	<b>917,266</b>	<b>2,449,796</b>	<b>1,226,053</b>
Investment (Note 6)	2,194,310	400,000	-
Exploration and evaluation properties (Note 8)	379,129	379,129	379,129
Petroleum and natural gas interests (Note 7)	147,495	197,656	1,968,556
Other property and equipment (Note 9)	7,211	8,973	1,207
<b>Total non-current assets</b>	<b>2,728,145</b>	<b>985,758</b>	<b>2,348,892</b>
	<b>\$ 3,645,411</b>	<b>\$ 3,435,554</b>	<b>\$ 3,574,945</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	\$ 233,940	\$ 352,424	\$ 220,776
Due to related parties (Note 16)	41,885	30,687	152,308
<b>Total current liabilities</b>	<b>275,825</b>	<b>383,111</b>	<b>373,084</b>
Decommissioning liability (Note 10)	85,623	75,596	176,540
	<b>361,448</b>	<b>458,707</b>	<b>549,624</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital (Note 11)	14,848,154	14,848,154	14,794,482
Non-controlling interest	1,323,228	951,265	-
Contributed surplus	1,733,013	1,733,013	1,733,013
Deficit	(16,414,742)	(14,555,585)	(13,502,174)
Accumulated other comprehensive income (Note 6)	1,794,310	-	-
<b>Total shareholders' equity</b>	<b>3,283,963</b>	<b>2,976,847</b>	<b>3,025,321</b>
	<b>\$ 3,645,411</b>	<b>\$ 3,435,554</b>	<b>\$ 3,574,945</b>

Going concern (Note 1)  
Subsequent event (Note 23)

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

**BERKLEY RENEWABLES INC. (Formerly Berkley Resources Inc.)**  
**CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS**

As at December 31

	2011	2010 (Note 21)
<b>Oil and gas revenue</b>		
Petroleum and natural gas sales	\$ 58,110	368,080
Royalty expense	(1,300)	(86,436)
<b>Net oil and gas revenue</b>	<b>56,810</b>	<b>281,644</b>
<b>Oil and gas production expenses</b>		
Operating costs	19,190	139,968
Depletion and accretion	24,240	110,890
	<b>43,430</b>	<b>250,858</b>
<b>Net oil and gas income</b>	<b>13,380</b>	<b>30,786</b>
<b>General and administrative</b>		
Management fees	498,424	408,761
Professional fees	206,384	117,463
Consulting fees	59,851	48,325
Administrative, office services and premises	299,593	221,768
Depreciation (Note 9)	4,704	2,012
Shareholder information	17,536	1,979
Filing and transfer agent fees	16,067	36,399
	<b>1,102,559</b>	<b>836,707</b>
<b>Other income (expenses)</b>		
Realized foreign exchange gain	6,631	24,444
Bad debt expense	36,405	(143,000)
Unrealized (loss) gain on marketable securities	(388,633)	525,285
Realized gain on marketable securities	24,447	-
Loss on disposal of mineral properties (Note 7)	-	(350,026)
Loss on impairment (Note 7)	(99,067)	(437,080)
Gain on corporate acquisition (Note 5)	-	323,551
Other income	22,202	-
	<b>(398,015)</b>	<b>(56,826)</b>
<b>Loss before tax and non-controlling interest</b>	<b>(1,487,194)</b>	<b>(862,747)</b>
Deferred income tax expense (Note 15)	-	42,515
Net loss attributed to non-controlling interest	371,963	148,149
<b>Net loss for the year</b>	<b>(1,859,157)</b>	<b>(1,053,411)</b>
<b>Other comprehensive income</b>		
Unrealized gain on investment (Note 6)	1,794,310	-
<b>Total comprehensive loss for the year</b>	<b>(64,847)</b>	<b>(1,053,411)</b>
<b>Basic and diluted net loss per share</b> (Note 14)	<b>(0.04)</b>	<b>(0.02)</b>

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

**BERKLEY RENEWABLES INC. (Formerly Berkley Resources Inc.)**  
**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**

	Share Capital	Contributed surplus	Deficit	Non-controlling interest	Accumulated other comprehensive income	Total
<b>Balance as at January 1, 2010 (Note 21)</b>	\$ 14,794,482	\$ 1,733,013	\$ (13,502,174)	-	-	\$ 3,025,321
Net loss	-	-	(1,053,411)	-	-	(1,053,411)
Issue of share capital	53,672	-	-	-	-	53,672
Non-controlling interest	-	-	-	951,265	-	951,265
<b>Balance as at December 31, 2010 (Note 21)</b>	14,848,154	\$ 1,733,013	\$(14,555,585)	951,265	-	\$ 2,976,847
Net loss	-	-	(1,859,157)	-	-	(1,859,157)
Unrealized gain on investment	-	-	-	-	1,794,310	1,794,310
Non-controlling interest	-	-	-	371,963	-	371,963
<b>Balance as at December 31, 2011</b>	\$ 14,848,154	\$ 1,733,013	\$(16,414,742)	\$ 1,323,228	\$ 1,794,310	\$ 3,283,963

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

**BERKLEY RENEWABLES INC. (Formerly Berkley Resources Inc.)**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**For the Years Ended December 31, 2011 and 2010**

	2011	2010 (Note 21)
<b>CASH PROVIDED BY (USED IN) FROM CONTINUING OPERATIONS</b>		
<b>OPERATING ACTIVITIES</b>		
Net loss for the year	\$ (1,859,157)	\$ (1,053,411)
Items not requiring cash in the year		
Depreciation, depletion and accretion	28,944	112,903
Impairment loss	99,067	437,080
Gain on corporate acquisition	-	(323,551)
Loss on disposal of mineral properties	-	350,026
Unrealized loss (gain) on marketable securities	388,633	(525,285)
Realized (gain) on marketable securities	(24,447)	-
Deferred income tax expense	-	42,515
Non-controlling interest	371,963	148,149
	<b>(994,997)</b>	<b>(811,574)</b>
Change in non-cash working capital (Note 17)	<b>(142,645)</b>	161,829
	<b>(1,137,642)</b>	<b>(649,745)</b>
<b>INVESTING ACTIVITIES</b>		
Proceeds on disposition of oil and gas properties	-	1,304,178
Proceeds on sale of marketable securities	739,100	-
Purchase of marketable securities	-	(87,178)
Purchase of investment (Note 6)	-	(400,000)
Purchase of oil and gas property and equipment	(66,048)	(221,215)
Acquisition of business, net of cash received (Note 5)	-	272,489
	<b>673,052</b>	<b>868,274</b>
<b>FINANCING ACTIVITIES</b>		
Advances (repayments) from related parties	11,198	(121,621)
Changes in non-cash working capital (Note 17)	-	191,000
	<b>11,198</b>	<b>69,379</b>
<b>Increase in cash and cash equivalents</b>	<b>(453,392)</b>	287,908
<b>Cash and cash equivalents, beginning of year</b>	<b>1,127,719</b>	839,811
<b>Cash and cash equivalents, end of year</b>	<b>\$ 674,327</b>	<b>\$ 1,127,719</b>

No income taxes or interest paid during the year (2010 - \$nil).

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

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**BERKLEY RENEWABLES INC. (Formerly Berkley Resources Inc.)**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the Years Ended December 31, 2011 and 2010**

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**1. Nature of Operations and Going Concern**

Berkley Renewables Inc. (formerly Berkley Resources Inc.) (see Note 23) was created on the amalgamation of Fortune Island Mines Ltd., Kerry Mining Ltd. and Berkley Resources Ltd. under the Company Act (British Columbia) on July 18, 1986. Previously focused on the acquisition, exploration, development and production from petroleum and natural gas interests in Alberta, Canada, Berkley is currently diversifying its strategy into renewable sources of energy, specifically photovoltaic power generation. The address of the registered office is 900, 570 Granville Street, Vancouver, British Columbia, V6C 3P1.

On July 8, 2010, Berkley acquired a 53% interest in American Uranium Corporation ("AUC") (see Note 5). The results of American Uranium Corporation's operations have been included in these consolidated financial statements since that date. American Uranium Corporation is an exploration-stage company engaged in the acquisition and exploration of mineral property interests in the United States.

These consolidated financial statements include both Berkley Renewables Inc. ("Parent") and AUC ("Subsidiary") (hereinafter together referred to as the "Company" or "Berkley") and have been prepared on the basis of accounting principles applicable to a going concern which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations.

Adverse conditions and events cast substantial doubt upon the validity of this assumption. The Company has a total comprehensive loss for the year ended December 31, 2011 of \$64,847 (December 31, 2010 - \$1,053,411), accumulated deficit of \$16,414,742 (December 31, 2010 - \$14,555,585, January 1, 2010 - \$13,502,174) and negative cash flows from operating activities of \$1,137,642 (December 31, 2010 - \$649,745).

The Company's ability to continue as a going concern is dependent upon its ability to raise additional capital through the issuance of treasury shares or debt and achieve profitable operations in the future. The management of Berkley have developed a strategy to address this uncertainty, including additional equity and/or debt financing; however, there are no assurances that any such financing can be obtained on favourable terms, if at all.

If the going concern assumption were not appropriate for these consolidated financial statements, then adjustments would be necessary in the carrying values of assets and liabilities, reported revenues and expenses, and the statement of consolidated financial position classifications used.

The consolidated financial statements were authorized for issue on • by the directors of Berkley.

**2. Basis of Preparation**

**a) Statement of compliance:**

The consolidated financial statements represent the Company's initial presentation of its results and financial position under International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and the Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") in effect at the closing date of December 31, 2011.

Berkley adopted IFRS in accordance with IFRS 1 First-time Adoption of International Financial Reporting Standards ("IFRS 1") with a transition date to IFRS of January 1, 2010. Consequently the comparative figures for 2010 and the Company's statement of financial position as at January 1, 2010 have been restated from Canadian generally accepted accounting principles ("Canadian GAAP") to comply with IFRS.



**2. Basis of Preparation** *(continued)*

Notes 20 and 21 disclose information on the transition to IFRS effective for the year ended December 31, 2010 that is material to the understanding of these consolidated financial statements.

The reconciliations to IFRS from the previously published Canadian GAAP consolidated financial statements are summarized in Note 21. In addition, IFRS 1 allows certain exemptions from retrospective application of IFRS in the opening statement of financial position. Where these have been used they are explained in Note 20.

**b) Basis of measurement:**

These consolidated financial statements have been prepared on a historical cost basis, except for the revaluation of certain financial assets and financial liabilities to fair value, including derivative instruments.

**c) Functional and presentation currency:**

These consolidated financial statements are presented in Canadian dollars, which is also the functional currency for the subsidiary.

**d) Use of estimates and judgments:**

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that may affect the reported amounts of assets, liabilities, income and expenses and disclosures of contingencies and commitments. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The key sources of estimation uncertainty that have a significant risk of causing material adjustment to the amounts recognized in the consolidated financial statements are:

- *Impairment of non-financial assets*

The Company assesses its P&NG and E&E assets for possible impairment if there are events or changes in circumstances that indicate the carrying values of the assets may not be recoverable. Such indicators include changes in the Company's business plans, changes in commodity prices, evidence of physical damage and significant downward revisions to estimated recoverable volumes or increases in estimated future development expenditures. The assessment for impairment for P&NG and E&E assets involves comparing the carrying value of the CGU with the higher of value in use calculations and fair value less costs to sell. Determination as to whether and how much an asset is impaired involves management estimates on highly uncertain matters such as future commodity prices, the effects of inflation on operating expenses, discount rates, production profiles and the outlook for regional supply-and-demand conditions for crude oil, natural gas and liquids. Impairment is recognized in earnings in the period in which carrying amount exceeded the recoverable amount.

**2. Basis of Preparation** *(continued)*

- *Share-based payment transactions*

The Company measures the cost of share-based payment transactions with employees by reference to the fair value of the equity instruments. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining and making assumptions about the most appropriate inputs to the valuation model including the expected life, volatility and dividend yield of the share option.

- *Income taxes*

Provisions for taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax-related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

- *Useful lives of property and equipment*

The Company estimates the useful lives of property and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the relevant assets. In addition, the estimation of the useful lives of property and equipment are based on internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in the estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of the property and equipment would increase the recorded expenses and decrease the non-current assets.

- *Allowance for doubtful debts*

The Company makes allowances for doubtful debts based on an assessment of the recoverability of receivables. Allowances are applied to receivables where events or changes in circumstances indicate that the carrying amounts may not be recoverable. Management specifically analysed historical bad debts, customer concentrations, customer creditworthiness, current economic trends and changes in customer payment terms when making a judgement to evaluate the adequacy of the allowance for doubtful debts of receivables. Where the expectation is different from the original estimate, such difference will impact the carrying value of receivables.

- *Fair value of financial instruments*

The estimated fair value of financial assets and liabilities, by their very nature, are subject to measurement uncertainty. Trade and other receivables are stated after evaluation as to their collectability and an appropriate allowance for doubtful accounts is provided where considered necessary.

- *Decommissioning liabilities*

Amounts recorded for decommissioning liabilities and the related accretion expense requires the use of estimates with respect to the amount and timing of asset retirements, site remediation and related cash flows.

**2. Basis of Preparation** *(continued)*

- *Depletion and depreciation*

Depletion of resource assets is measured over the life of proved and probable reserves on a unit-of-production basis and commences when the wells are substantively complete and after commercial production has begun. Reserve estimates and the associated future capital can have a significant impact on earnings, as these are key components to the calculation of depletion. A downward revision in the reserve estimate or an upward revision to future capital would result in increased depletion, reduced earnings and reduced carrying value of petroleum and natural gas property assets.

Estimates and underlying assumptions are reviewed by management on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and any future years affected.

**3. Significant Accounting Policies**

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by the Parent and its Subsidiary.

**a) Basis of consolidation**

The consolidated financial statements include the accounts of Berkley and its subsidiary, AUC. The subsidiary is fully consolidated from the date of acquisition, being the date on which Berkley obtained control, and continues to be consolidated until the date that such control ceases. The financial statements of the subsidiary are prepared for the same reporting period as the parent, using consistent accounting policies. All intercompany balances and transactions are eliminated in full upon consolidation.

**b) Financial instruments**

(i) Non-derivative financial instruments:

Non-derivative financial instruments comprise cash and cash equivalents, trade and other receivables, marketable securities, investment, accounts payable and accrued liabilities and due to related parties. Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

*Loans and receivables:*

Loans and receivables are initially recognized at fair value plus transaction costs and subsequently carried at amortized cost using the effective interest method.

A provision for impairment of loans and receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in the consolidated statement of comprehensive loss. When a loan and receivable is uncollectible, it is written off against the allowance account for trade and other receivables. The Company's loans and receivables are composed of trade and other receivables.

**3. Significant Accounting Policies** *(continued)*

*Financial assets at fair value through profit or loss:*

A financial instrument is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's risk management and investment strategy. Upon initial recognition, attributable transaction costs are recognized in earnings when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognized in earnings. The Company has designated cash and cash equivalents and marketable securities at fair value.

*Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets that are not classified as loans and receivables or financial assets at fair value through profit or loss. Subsequent to initial recognition, they are measured at fair value, with gains or losses recognized within other comprehensive income. Accumulated changes in fair value are recorded as a separate component of equity until the investment is impaired, sold or otherwise disposed of, then the cumulative gain or loss in other comprehensive income is transferred to profit or loss. The Company's available-for-sale financial assets include the investment.

*Other financial liabilities:*

Other financial liabilities include accounts payable and accrued liabilities and due to related parties, and are recognized initially at fair value and subsequently measured at amortized cost using the effective interest rate method.

**c) Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand with original maturities of three months or less that are readily convertible into cash and which are subject to insignificant risk of changes in value. The balances at December 31, 2011, December 31, 2010 and January 1, 2010 consisted entirely of cash.

**d) Revenue recognition**

Revenue from the sale of petroleum and natural gas is recorded when title passes to an external party and is based on volumes delivered to customers at contractual delivery points, and rates and collectability are reasonably assured. The costs associated with the delivery, including operating and maintenance costs, transportation and production-based royalty expenses, are recognized during the same period in which the related revenue is earned and recorded

**e) Petroleum and natural gas interests**

Petroleum and natural gas interests ("P&NG") are carried at cost, less accumulated depletion, depreciation and accumulated impairment losses. The cost of an item of P&NG consists of the purchase price, any costs directly attributable to bringing the asset into the location and condition necessary for its intended use, a discounted current estimate of the decommissioning costs and borrowing costs for qualifying assets.

Oil and gas capitalized costs are depleted using the unit-of-production method. Depletion is calculated using the ratio of production in the period to the remaining total proved and probable reserves before royalties, taking into account future development costs prior to inflation necessary to bring those reserves into production. These estimates are evaluated and reported on by independent reserve engineers annually. Proven and probable reserves are estimated using independent reserve engineer reports and represent the estimated quantities of crude oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible.

**3. Significant Accounting Policies** *(continued)*

Changes in estimates such as quantities of proved and probable reserves that affect unit-of-production calculations are applied on a prospective basis.

An item of P&NG is derecognized upon disposal or is impaired when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss on disposal of the asset, determined as the difference between the net proceeds and the carrying amount of the asset, is recognized in the consolidated statement of comprehensive loss in the period incurred.

The carrying amounts of property and equipment are reviewed each reporting period for impairment when indicators of such impairment exist. If indicators exist, the assets are tested for impairment under IAS 36.

**e) Exploration and evaluation properties**

Exploration and evaluation properties ("E&E") include land acquisition costs, geological and geophysical costs, exploratory drilling, directly attributable expenses and activities relating to evaluating the technical feasibility and commercial viability of our resources. All other expenditures are recognized in earnings as incurred.

E&E costs are capitalized and are not depleted until such time as the exploration phase is complete and technical feasibility and commercial viability of extracting the mineral resource has been demonstrated. Once demonstrated, E&E assets are tested for impairment in accordance with IAS 36 "Impairment of Assets ("IAS 36") and transferred to P&NG, and further development costs are capitalized to P&NG. E&E assets are also tested for impairment in accordance with IAS 36 if facts and circumstances suggest that the carrying amount exceeds the recoverable amount. If it is determined that technical feasibility and commercial viability has not been achieved in relation to a property, the resulting loss is included in the consolidated statement of comprehensive loss.

**f) Other property and equipment**

*Other property and equipment*

Other property and equipment consists of computer equipment and furniture, fixtures, equipment and leasehold improvements that are amortized at the following rates per annum under the declining balance and straight-line method:

Computer equipment	30%
Furniture, fixtures and equipment	20%
Leasehold improvements	Term of the lease

**g) Impairment of assets**

**Non-financial assets**

At each financial reporting date, the carrying amounts of P&NG and E&E assets are reviewed to determine whether there is any indication that those assets are impaired. If such indication exists, an estimate of the recoverable amount of the asset is calculated.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash generating unit" or "CGU"). The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs to sell.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Value in use is generally computed by reference to the present value of the future cash flows expected to be derived from production of proven and probable reserves.

### **3. Significant Accounting Policies** *(continued)*

#### **Non-financial assets** *(continued)*

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in earnings. Impairment losses recognized in respect of CGU's are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation or amortization, if no impairment loss had been recognized. A reversal of an impairment loss is recognized immediately in profit or loss.

#### **Financial assets**

Financial assets are assessed at each reporting date in order to determine whether objective evidence exists that the assets are impaired as a result of one or more events which have had a negative effect on the estimated future cash flows of the asset.

If there is objective evidence that a financial asset has become impaired, the amount of the impairment loss is calculated as the difference between its carrying amount and the present value of the estimated future cash flows from the asset discounted at its original effective interest rate. Impairment losses are recorded in earnings. If the amount of the impairment loss decreases in a subsequent period and the decrease can be objectively related to an event occurring after the impairment was recognized, the impairment loss is reversed up to the original carrying value of the asset. Any reversal is recognized in earnings.

#### **h) Flow-through shares**

Expenditure deductions for income tax purposes related to exploratory activities funded by flow-through equity instruments are renounced to investors in accordance with income tax legislation. The proceeds from issuance are allocated between the offering of shares and the sale of tax benefits. The allocation is made based on the difference between the quoted price of the existing shares and the amount the investor pays for the shares. A liability is recognized for this difference. The liability is reversed when tax benefits are renounced and a deferred tax liability is recognized at that time. Income tax expense is the difference between the amount of the deferred tax liability and the liability recognized on issuance.

#### **i) Income taxes**

Income tax expense is comprised of current and deferred tax expenses. Income tax expense is recognized in earnings except to the extent that if the income tax expense related to items recognized directly in equity, the income tax expense would also be recognized in equity.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the liability method. Under this method, deferred tax assets and liabilities are recognized in relation to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

**3. Significant Accounting Policies** *(continued)*

**i) Income taxes** *(continued)*

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

**h) Earnings (loss) per share**

Basic earnings (loss) per share is computed using the weighted average number of common shares outstanding during the period. The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on earnings per share is calculated presuming the exercise of outstanding options, warrants and similar instruments. It assumes that proceeds received from the exercise of stock options and warrants would be used to repurchase common shares at the average market price during the period. However, the calculation of diluted loss per share excludes the effects of various conversions and exercise of options and warrants that would be anti-dilutive.

**i) Share-based payments**

The Company uses the Black-Scholes pricing model to estimate the fair value of share-based payments at the grant date. The expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are satisfied.

No expense is recognized for awards that do not ultimately vest, except for equity-settled awards where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

**j) Decommissioning liability**

The Company's activities give rise to dismantling, decommissioning and site disturbance re-mediation activities. A provision is made for the estimated cost of site restoration and capitalized in the relevant asset category.

Decommissioning liabilities are measured at the present value of management's best estimate of expenditure required to settle the present obligation at the statement of financial position date. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation discounted using the risk-free rate, updated at each reporting date. The increase in the provision due to the passage of time is recognized as finance costs whereas increases or decreases due to changes in the estimated cost are capitalized as P&NG. Actual costs incurred upon settlement of the decommissioning liability reduce the liability to the extent the provision was established. The related decommissioning asset is depleted on the same basis as the P&NG to which it relates.

#### **4. Recent Accounting Pronouncements**

Standards issued but not yet effective up to the date of issuance of the Company's financial statements are listed below. This listing is of standards and interpretations issued, which the Company reasonably expects to be applicable at a future date. The Company intends to adopt those standards when they become effective.

- (i) IFRS 9 - Financial Instruments: issued in October 2010, is the first phase in the replacement of IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 revises the current multiple classification and measurement models for financial assets and liabilities and limits the models to two: amortized cost or fair value. The new standard is effective for the Company's interim and annual financial statements commencing January 1, 2013. The Company is currently assessing the impact of this standard on its consolidated financial statements.
- (ii) IFRS 10 - Consolidated Financial Statements: issued in May 2011, identifies the concept of control as the determining factor in whether an investee should be included within the consolidated financial statements of the parent. The guidance requires an entity to consolidate an investee when it has exposure or rights to variable returns from its involvement with the investee and has the ability to affect those returns. The standard applies to all investees, including special purpose entities and replaces SIC- 12 Consolidation Special Purpose Entities and parts of IAS 27 Consolidated and Separate Financial Statements. The new standard is effective for the Company's interim and annual consolidated financial statements commencing January 1, 2013. The Company is currently assessing the impact of this standard on its consolidated financial statements.
- (iii) IFRS 11 - Joint Arrangements: issued in May 2011, addresses two forms of joint arrangements where there is joint control: joint operations and joint ventures. In a joint operation, each venturer will recognize its share of the operation's assets, liabilities, revenues and expenses. Joint ventures will be required to use the equity method of accounting. IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities Non-Monetary Contributions from Venturers. The new standard is effective for the Company's interim and annual consolidated financial statements commencing January 1, 2013. The Company is currently assessing the impact of this standard on its consolidated financial statements.
- (iv) IFRS 12 - Disclosure of Interests in Other Entities: issued in May 2011. It is a comprehensive standard addressing disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, subsidiaries, special purpose entities and unconsolidated structured entities. The standard aims to provide information to enable users to evaluate the nature of an entity's interest in other entities and the associated risks. IFRS 12 is effective for the Company's interim and annual financial statements commencing January 1, 2013. The Company is currently assessing the impact of this standard on its consolidated financial statements.
- (v) IFRS 13 - Fair Value Measurement: issued in May 2011, replaces fair value measurement and disclosure guidance throughout individual IFRS standards with one comprehensive source of fair value measurement guidance. IFRS 13 defines fair value as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. The standard also provides a framework for measurement of fair value and establishes required disclosures. It is effective for the Company's interim and annual financial statements commencing January 1, 2013. The Company is currently assessing the impact of this standard on its consolidated financial statements.
- (vi) IAS 1 - Presentation of Items of Other Comprehensive Income: in 2011, the IASB issued amendments to IAS 1 Presentation of Financial Statements to split items of other comprehensive income (OCI) between those that are reclassified to income and those that are not. The standard is required to be adopted for periods beginning on or after July 1, 2012. The Company is currently assessing the impact of this standard on its consolidated financial statements.



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**BERKLEY RENEWABLES INC. (Formerly Berkley Resources Inc.)**  
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**4. Recent Accounting Pronouncements** *(continued)*

- (vii) IAS 27 - Separate Financial Statements: the IASB issued amendments to IAS 27 Separate Financial Statements to coincide with the changes made in IFRS 10, but retains the current guidance for separate financial statements. The Company is currently assessing the impact of this standard on its consolidated financial statements.
- (viii) IAS 28 - Investments in Associates and Joint Ventures: the IASB issued amendments to IAS 28 Investments in Associates and Joint Ventures to coincide with the changes made in IFRS 10 and IFRS 11. The Company is currently assessing the impact of this standard on its consolidated financial statements.

**5. Corporate Acquisition**

On July 8, 2010, Berkley acquired a 53% interest in AUC for cash consideration of \$472,765 (US\$470,226). The results of AUC's operations have been included in these consolidated financial statements since that date. AUC is an exploration-stage company engaged in the acquisition and exploration of mineral property interests in the United States. The acquisition was accounted for using the acquisition method of accounting whereby the total cost of the acquisition has been allocated to the assets acquired and to the liabilities assumed based upon their respective fair values at the effective date.

As a result of the acquisition, negative goodwill of \$323,551 (US\$321,813) was recorded, which has been recorded as a gain in the consolidated financial statements.

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed on the date of acquisition:

Fair value of assets acquired:	
Cash	745,254
Marketable securities	815,858
Prepaid expenses	20,894
Equipment	5,621
Deferred income tax asset generated on acquisition	80,218
Accounts payable	(38,930)
Due to a related party	(29,483)
Negative goodwill	(323,551)
	<hr/>
	1,275,881
Non-controlling interest on acquisition	(803,116)
	<hr/>
	\$ 472,765

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**6. Investment**

During 2010, Berkley acquired 400,000 common shares of Trichoscience Innovations Inc. ("Trichoscience") at a price of \$1.00 per share. On May 9, 2011, Trichoscience became a wholly-owned subsidiary of RepliCel Life Sciences ("RepliCel"). All outstanding shares of Trichoscience were exchanged for 2,295,300 common shares of RepliCel. The common shares are being held in escrow and will be released 15% per quarter beginning January 1, 2012. The investment in RepliCel was measured at the fair value using the Black-Scholes pricing model which the Company recognized an unrealized gain on investment in other comprehensive income for the year ended December 31, 2011 of \$1,794,310 (December 31, 2010 - \$nil). The following assumptions were used to measure fair value of the investment:

	<u>December 31, 2011</u>
Risk free interest rate	0.99%
Expected volatility	81%
Expected life (years)	2.13

Once released from escrow, the investment in RepliCel will be valued at its trading price.

**7. Petroleum and Natural Gas Interests**

**Cost or deemed cost**

Balance at January 1, 2010	\$ 1,968,556
Additions	525,847
Disposals	(1,816,005)
<hr/> Balance at December 31, 2010	<hr/> 678,398
Additions	71,045
<hr/> Balance at December 31, 2011	<hr/> \$ 749,443

**Depletion and impairment losses**

Balance at January 1, 2010	\$ -
Depletion	105,800
Disposals	(55,900)
Impairment	430,842
<hr/> Balance at December 31, 2010	<hr/> 480,742
Depletion	22,139
Impairment	99,067
<hr/> Balance at December 31, 2011	<hr/> \$ 601,948

**Net book value amount**

At December 31, 2011	\$ 147,495
At December 31, 2010	\$ 197,656
At January 1, 2010	\$ 1,968,556

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**7. Petroleum and Natural Gas Interests** *(continued)*

As at December 31, 2011 oil and gas properties were impaired by \$99,067 (December 31, 2010 - \$430,842, January 1, 2010 - \$1,555,859). The impairment resulted from a significant decrease in the reserve volumes allocated to oil and gas properties as at December 31, 2011. The oil and gas properties were written down to fair value less cost to sell. Fair value was determined using a valuation technique that incorporates the estimated future cash flows based on reserve volumes and prices.

Effective October 1, 2010, Berkley sold its remaining 18.72% working interest in the Dollard Lands to an arms' length private operator for aggregate cash proceeds of \$1,112,400 and a loss on disposition of \$350,026 was recorded.

**8. Exploration and Evaluation Properties**

	<i>E&amp;E Assets</i>	
Balance at January 1, 2010	\$	379,129
Additions		-
Balance at December 31, 2010 & December 31, 2011	\$	379,129

E&E consists of the Company's exploration projects which are pending the determination of proven or probable reserves.

**9. Other Property and Equipment**

	Computer equipment		Furniture, fixtures and equipment		Leasehold improvements		Total
<b>Cost</b>							
Balance at January 1, 2010	\$	28,760	\$	8,521	\$	-	\$ 37,281
Additions		5,022		678		4,078	9,778
Balance at December 31, 2010	\$	33,782	\$	9,199	\$	4,078	\$ 47,059
Additions		2,942		-		-	2,942
Balance at December 31, 2011	\$	36,724	\$	9,199	\$	4,078	\$ 50,001

	Computer equipment		Furniture, fixtures and equipment		Leasehold improvements		Total
<b>Depreciation and impairment loss</b>							
Balance at January 1, 2010	\$	28,656	\$	7,418	\$	-	\$ 36,074
Depreciation		739		254		1,019	2,012
Balance at December 31, 2010		29,395		7,672		1,019	38,086
Depreciation		1,362		283		3,059	4,704
Balance at December 31, 2011	\$	30,757	\$	7,955	\$	4,078	\$ 42,790

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**9. Other Property and Equipment** *(continued)*

**Net book value amounts**

At December 31, 2011	\$	7,211
At December 31, 2010	\$	8,973
At January 1, 2010	\$	1,207

**10. Decommissioning Liability**

The following table presents the reconciliation of the carrying amount of the obligation associated with the decommissioning of the Company's P&NG assets:

	<b>December 31, 2011</b>	December 31, 2010
Balance, beginning of year	\$ 75,596	\$ 176,540
Accretion	2,084	5,090
Change in estimates	7,943	6,023
Disposition of working interest	-	(112,057)
Balance, end of year	\$ 85,623	\$ 75,596

Berkley estimates the total undiscounted amount of cash flows required to settle its decommissioning liability is approximately \$81,879 (December 31, 2010 - \$81,879, January 1, 2010 - \$198,832) which will be incurred between 2017 and 2029. The majority of these obligations will be incurred in 2017. An inflation factor of 1.5% has been applied to the estimated asset retirement cost. Risk-free discount rates of 1.52 - 4.04% were used to calculate the fair value of the decommissioning liability.

**11. Share Capital**

- a) Authorized  
 Unlimited Class A voting common shares, without par value

- b) Issued

	Number of shares	Amount
Balance January 1, 2010	45,066,042	\$14,794,482
Shares issued for debt (i)	1,073,440	53,672
Balance December 31, 2010 and December 31, 2011	46,139,482	\$14,848,154

- i) On February 1, 2010, Berkley arranged a share for debt settlement with certain of its related parties. The debt settlement allowed Berkley to extinguish approximately \$53,672 in outstanding debt through the issuance of 1,073,440 common shares of Berkley.

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**12. Share-based Payments**

The Company has an equity-settled stock option plan under which the Board of Directors may grant options to directors, officers, other employees and key consultants. The purpose of the plan is to advance the interests of the Company by encouraging these individuals to acquire shares in the Company and thereby remain associated with, and seek to maximize the value of, the Company.

Under the plan, the number of shares reserved for issuance pursuant to the exercise of all options under the plan may not exceed 10% of the issued and outstanding common shares on a non-diluted basis at any time. The options expire not more than five years from the date of grant, or earlier if the individual ceases to be associated with the Company, and vest over terms determined at the time of grant.

The following tables summarize information about stock options outstanding as at:

	December 31, 2011		December 31, 2010	
	Number of shares subject to option	Weighted average exercise price per option	Number of shares subject to option	Weighted average exercise price per option
Balance outstanding, beginning of year	790,000	\$0.56	1,267,500	\$0.69
Expired	(440,000)	\$0.56	(477,500)	\$0.90
Balance outstanding, end of year	350,000	\$0.55	790,000	\$0.56
Exercisable, end of year	350,000	\$0.55	790,000	\$0.56

A summary of stock options outstanding is as follows:

Exercise Price Per Share	Expiry Date	Number of Shares Remaining Subject to Option at End of Period		
		December 31, 2011	December 31, 2010	January 1, 2010
\$0.90	December 23, 2010	-	-	477,500
\$0.56	September 21, 2011	-	440,000	440,000
\$0.55	July 4, 2012	350,000	350,000	350,000
		350,000	790,000	1,267,500

**BERKLEY RENEWABLES INC. (Formerly Berkley Resources Inc.)**  
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**13. Warrants**

The following table summarizes information about warrants outstanding as at:

	December 31, 2011		December 31, 2010	
	Number of Shares Subject to Warrants	Exercise price range	Number of Shares Subject to Warrants	Exercise price range
Balance outstanding, beginning of year	21,370,000	\$0.10	21,370,000	\$0.10
Expired	(21,370,000)	\$0.10	-	-
Balance outstanding, end of year	-	-	21,370,000	\$0.10

**14. Loss Per Common Share**

Basic income or loss per share amounts are calculated by dividing the net income or loss of the year attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the year.

The Company's dilutive instruments consist of common share purchase warrants and stock options.

	2011	2010
Net loss	\$ (1,859,157)	\$ (1,053,411)
Weighted average shares outstanding	46,139,482	46,018,904
Basic and diluted loss per common share	\$ (0.04)	\$ (0.02)

The basic and diluted loss per share amounts are the same as the common share purchase warrants and stock options were excluded from the dilution calculation, as they were anti-dilutive.

**15. Income Taxes**

The net income tax provision differs from that expected by applying the combined federal and provincial tax rates of 26.50% (2010 – 28.00%) to profit before income taxes for the following reasons:

	December 31, 2011.	December 31, 2010
Loss before income tax	\$ (1,487,194)	\$ (862,747)
Combined federal and provincial income tax rate	26.50%	28.00%
Tax effect	(394,106)	(241,569)
Meals and entertainment	1,243	210
Interest and penalties	-	2,426
Tax adjustment from rate change and other	7,891	(1,435,909)
Change in deferred tax benefits not recognized	384,972	1,717,357
	\$ -	\$ 42,515

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**15. Income Taxes (continued)**

Deferred tax assets and liabilities are attributable to the following:

	<b>December 31,</b>	December 31,	January 1,
	<b>2011</b>	2010	2010
Deferred income tax assets (liabilities)			
Non-capital losses	<b>2,635,039</b>	2,287,026	241,687
Share issuance costs	-	-	16,466
Property and equipment	<b>1,526,112</b>	1,325,219	1,547,432
Decommissioning liabilities	<b>21,406</b>	18,899	47,249
Cumulative eligible capital	<b>1,216</b>	1,308	1,505
Marketable securities	<b>(2,816)</b>	(60,756)	-
Investments	<b>(224,289)</b>	-	-
Net deferred income tax assets	<b>3,956,668</b>	3,571,696	1,854,339
Deferred tax benefits not recognized	<b>(3,956,668)</b>	(3,571,696)	(1,854,339)
	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

The Company's non-capital losses of \$7,354,932 (2010 - \$6,312,288), expire between 2015 and 2032.

**16. Related Party Transactions**

The consolidated financial statements include the financial statements of Berkley Renewables Ltd. and the subsidiary listed below:

<b>Name</b>	<b>Country of Incorporation</b>	<b>% equity interest</b>		
		<b>December 31, 2011</b>	<b>December 31, 2010</b>	<b>January 1, 2010</b>
American Uranium Corp.	United States of America	53%	53%	-

Balances and transactions between Berkley and its subsidiary have been eliminated on consolidation and are not disclosed in this note. Details of transactions with other related parties are disclosed below:

- a) Due to related parties consists of \$14,000 (December 31, 2010 - \$35,708, January 1, 2010 - \$118,012) due to Directors of Berkley for Directors fees, consulting fees and expenses. Included in due to related parties is \$4,000 (December 31, 2010 - \$20,000, January 1, 2010 - \$nil) advanced to a Director during the year.
- b) Management and consulting fees totalling \$334,745 were paid to Directors and their private companies in 2011 (December 31, 2010 - \$204,500); and rent expense totalling \$27,200 (December 31, 2010 - \$22,857) was paid to a company whose management is related to a Director of Berkley.
- c) Berkley takes part in a cost sharing arrangement to reimburse Oniva International Services Corporation ("Oniva"), a private company owned by public companies having common Directors, for a variable percentage of its overhead expenses, to reimburse 100% of its out-of-pocket expenses incurred on behalf of Berkley, and to pay a percentage fee based on the total overhead and corporate expenses. The agreement may be terminated with one-month notice by either party.

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**16. Related Party Transactions** *(continued)*

Administrative services, office supplies and accounting charges totalling \$95,367 were paid to Oniva during the year ended December 31, 2011 (December 31, 2010 - \$46,754). At year end, \$14,616 (December 31, 2010 - \$11,974, January 1, 2010 - \$34,296) of this amount was included in accounts payable and accrued liabilities.

The transactions were in the normal course of operations and have been measured at the exchange amount, which is the amount agreed to by the related parties.

**Compensation of key management personnel**

The remuneration of directors and other members of key management personnel during the years ended December 31, 2011 and 2010 were as follows:

	2011	2010
	\$	\$
Compensation, including bonuses	<b>361,500</b>	352,015

**17. Supplemental Cash Flow Information**

	2011	2010
	\$	\$
Change in non-cash working capital items:		
Trade and other receivables	<b>(48,315)</b>	45,963
Share subscriptions receivable	-	191,000
Prepaid expenses	<b>24,154</b>	(15,782)
Accounts payable and accrued liabilities	<b>(118,484)</b>	131,648
Net change in non-cash working capital items	<b>(142,645)</b>	352,829

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

	2011	2010
	\$	\$
Operating	<b>(142,645)</b>	161,829
Investing	-	-
Financing	-	191,000
	<b>(142,645)</b>	352,929



## **18. Financial Instruments and Financial Risk Management**

### **Fair values**

Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgement, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values. At December 31, 2011, the Company's financial instruments include cash and cash equivalents, trade and other receivables, marketable securities, investment, accounts payable and accrued liabilities and due to related parties. The fair values of these financial instruments approximate their carrying values due to their short-term maturity.

Fair value represents the price at which a financial instrument could be exchanged in an orderly market, in an arm's length transaction between knowledgeable and willing parties who are under no compulsion to act.

Berkley classifies the fair value of the financial instruments according to the following hierarchy based on the amount of observable inputs used to value the instrument:

- Level 1 - inputs to the valuation methodology are quoted prices for identical assets or liabilities in active markets;
- Level 2 - inputs to the valuation methodology included quoted prices for identical assets or liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace; and,
- Level 3 - inputs to the valuation methodology are not based on observable market data.

Cash and cash equivalents, marketable securities and the investment are recorded based on Level 1 of the fair-value hierarchy.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities. The Company has exposure to credit risk, liquidity risk and market risk as a result of its use of financial instruments. This note presents information about the Company's exposure to each of the above risks and the Company's objectives, policies and processes for measuring and managing these risks. Further quantitative disclosures are included throughout these consolidated financial statements. The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has implemented and monitors compliance with the risk management policies as set out herein:

### **Credit risk**

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. A substantial portion of the Company's trade and other receivables are with natural gas and liquids marketers and joint venture partners in the oil and gas industry and are subject to normal industry credit risks. As at December 31, 2011, the maximum credit exposure is the carrying amount of the trade and other receivables of \$132,367 (December 31, 2010 – \$84,052, January 1, 2010 – \$321,015). As at December 31, 2011, the Company's receivables consisted of \$108,458 from joint venture partners and other trade receivables (December 31, 2010 - \$35,730, January 1, 2010 - \$12,120) and \$23,909 of revenue receivable from petroleum and natural gas marketers (December 31, 2010 - \$48,322, January 1, 2010 - \$308,895).

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**18. Financial Instruments and Financial Risk Management** *(continued)*

The Company did not provide for any doubtful accounts nor was it required to write-off any receivables during the year ended December 31, 2011 (December 31, 2010 - \$143,000, January 1, 2010 - \$nil). The Company would only choose to write-off a receivable balance (as opposed to providing an allowance) after all reasonable avenues of collection had been exhausted.

The Company considers its trade and other receivables to be aged as follows:

	<b>December 31, 2011</b>	December 31, 2010	January 1, 2010
Not past due or impaired	<b>\$ 65,165</b>	\$ 9,720	\$ 25,429
Past due by less than 90 days but not impaired	<b>5,553</b>	38,640	53,942
Past due by more than 90 days but not impaired	<b>61,649</b>	35,692	51,644
	<b>\$ 132,367</b>	\$ 84,052	\$ 130,015

**Liquidity risk**

Liquidity risk is the risk that the Company will incur difficulties meeting its financial obligations as they are due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions without incurring unacceptable losses or risking harm to the Company's reputation.

The Company's operating cash requirements are continuously monitored by management. As factors impacting cash requirements change, liquidity risks may necessitate the need for the Company to raise capital by issuing equity. The Company also mitigates liquidity risk by maintaining an insurance program to minimize exposure to insurable losses. The Company's financial liabilities are comprised of accounts payable and accrued liabilities and due to related parties, which have expected maturities of less than one year.

**Market risk**

The significant market risk exposures affecting the financial instruments held by the Company are those related to foreign currency exchange rates and commodity price risk which are explained as follows:

i. Currency risk

Foreign currency exchange rate risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in foreign exchange rates. The Company enters into transactions denominated in United States currency for which the related expenses and accounts payable balances are subject to exchange rate fluctuations. The following items are denominated in United States currency as at:

	<b>December 31, 2011 CAD\$</b>	December 31, 2010 CAD\$	January 1, 2010 CAD\$
Cash and cash equivalents	<b>883</b>	792	nil
Accounts payable and accrued liabilities	<b>53,238</b>	2,763	nil

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**18. Financial Instruments and Financial Risk Management** *(continued)*

ii. Commodity price risk

Commodity price risk is the risk that the cash flows and operations of Berkley will fluctuate as a result of changes in commodity prices. Significant changes in commodity prices can also impact Berkley's ability to raise capital or obtain additional debt financing. Commodity prices for crude oil are impacted by world economic events that dictate the levels of supply and demand.

Berkley's financial performance is closely linked to crude oil and natural gas prices. While Berkley may employ the use of financial instruments in the future to manage these price exposures, it currently does not have enough producing wells to hedge its production, and its crude oil and natural gas liquids are sold into spot markets. Given production levels, a 10% change in commodity prices would not have a material effect on earnings.

**19. Capital Management**

Berkley defines its capital to include the following:

	<b>December 31, 2011</b>	December 31, 2010	January 1, 2010
Cash and cash equivalents	<b>\$ 674,327</b>	\$ 1,127,719	\$ 839,811
Shareholders' equity	<b>\$ 3,283,693</b>	\$ 2,976,847	\$ 3,025,321

Berkley's objective is to maintain access to sources of capital with which to finance its operations. Berkley manages its capital structure and makes changes to it in light of changes in economic conditions and the risk characteristics of the underlying investments. Berkley will balance its overall capital structure through new share issues or by undertaking other activities as deemed appropriate in the specific circumstances. At December 31, 2011, December 31, 2010 and January 1, 2010, Berkley was not subjected to any externally imposed capital requirements.

**20. Transition to IFRS**

The effect of Berkley's transition to IFRS, described in Note 1, is summarized in this note. In accordance with IFRS 1 "First-time adoption of IFRS", certain disclosures relating to the transition are also provided in this note.

IFRS 1 sets forth guidance for the initial adoption of IFRS. Under IFRS 1 the standards are applied retrospectively at the transitional statement of financial position date with all adjustments to assets and liabilities taken to retained earnings unless certain exemptions are applied.

The Company has applied the following exemptions to its opening consolidated statement of financial position dated January 1, 2010:

**Oil and gas exemption**

In July 2009, the IASB published an amendment to IFRS 1 "Additional Exemptions for First-time Adopters", which introduces a first-time adoption exemption for first-time adopters that accounted under their previous GAAP for exploration and development costs for oil and gas properties in the development or production phases in cost centres that include all properties in a large geographical area (defined as full cost method under Canadian GAAP). Under the exemption, a first-time adopter may elect to measure oil and gas assets at the date of transition to IFRS on a deemed cost basis, but does not permit continued application of the previous GAAP accounting policy. Berkley followed a full cost approach under Canadian GAAP and has elected to use this election to measure oil and gas exploration and production assets at the date of transition to IFRS on a deemed cost basis.

**20. Transition to IFRS** *(continued)*

**Share-based payments**

IFRS 2 "Share-based Payments" has not been applied to any equity instruments as all stock options were fully vested before January 1, 2010, the date of transition to IFRS.

**Business combinations**

The Company has elected to apply the exemption under IFRS 3 "Business Combinations" for retrospective application of IFRS 3 to business combinations that took place before the transition date.

**Decommissioning liabilities**

An entity that uses the deemed cost oil and gas exemption under IFRS 1 may also use an additional exemption with respect to decommissioning liabilities on oil and gas properties encompassed by the full cost method under Canadian GAAP. As Berkley has elected to apply the deemed cost oil and gas exemption, Berkley has also elected to apply this exemption and as such, Berkley has re-measured the decommissioning liability as at January 1, 2010 under IAS 37, and has recognized directly into deficit any differences between that amount and the carrying amount of the liabilities at January 1, 2010 as determined by Canadian GAAP.

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**21. RECONCILIATIONS FROM CANADIAN GAAP TO IFRS**

The January 1, 2010 Canadian GAAP consolidated statement of financial position has been reconciled to IFRS as follows:

	Notes	Canadian GAAP	January 1, 2010 Effect of transition to IFRS	IFRS
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents		\$ 839,811	\$ -	\$ 839,811
Trade and other receivables		321,015	-	321,015
Deposits		65,227	-	65,227
		1,226,053		1,226,053
<b>Non-current assets</b>				
Other property and equipment		1,207	-	1,207
Exploration and evaluation properties	(a)	-	379,129	379,129
Petroleum and natural gas interests	(b)	3,903,544	(1,934,988)	1,968,556
		\$ 5,130,804	\$ (1,555,859)	\$ 3,574,945
<b>LIABILITIES AND EQUITY</b>				
<b>Current liabilities</b>				
Accounts payable and accrued liabilities		\$ 220,776	\$ -	\$ 220,776
Due to related parties		152,308	-	152,308
		373,084	-	373,084
<b>Non-current liabilities</b>				
Decommissioning liability	(c)	144,838	31,702	176,540
		517,922	31,702	549,624
<b>Shareholders' Equity</b>				
Share capital	(d)	13,219,091	1,575,391	14,794,482
Contributed surplus		1,733,013	-	1,733,013
Deficit		(10,339,222)	(3,162,952)	(13,502,174)
		4,612,882	(1,587,561)	3,025,321
		\$ 5,130,804	\$ (1,555,859)	\$ 3,574,945

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**21. RECONCILIATIONS FROM CANADIAN GAAP TO IFRS** *(continued)*

The Canadian GAAP consolidated statement of financial position as at December 31, 2010 has been reconciled to IFRS as follows:

		<b>December 31, 2010</b>		
	Notes	Canadian GAAP	Effect of transition to IFRS	IFRS
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents		\$ 1,127,719	\$ -	\$ 1,127,719
Trade and other receivables		84,052	-	84,052
Deposits		81,009	-	81,009
Marketable securities		1,157,016	-	1,157,016
		2,449,796	-	2,449,796
<b>Non-current assets</b>				
Investment		400,000	-	400,000
Other property and equipment		8,973	-	8,973
Exploration and evaluation properties	(a)	-	379,129	379,129
Petroleum and natural gas interests	(b), (c)	692,949	(495,293)	197,656
		\$ 3,551,718	\$ (116,164)	\$ 3,435,554
<b>LIABILITIES AND EQUITY</b>				
<b>Current liabilities</b>				
Accounts payable and accrued liabilities		\$ 352,424	\$ -	\$ 352,424
Due to related parties		30,687	-	30,687
		383,111	-	383,111
<b>Non-current liabilities</b>				
Decommissioning liability	(c)	60,174	15,422	75,596
		443,285	15,422	458,707
<b>Shareholders' Deficiency</b>				
Share capital	(d)	13,272,763	1,575,391	14,848,154
Non-controlling interest		951,265	-	951,265
Contributed surplus		1,733,013	-	1,733,013
Deficit		(12,848,608)	(1,706,977)	(14,555,585)
		3,108,433	(131,586)	2,976,847
		\$ 3,551,718	\$ (116,164)	\$ 3,435,554

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**21. RECONCILIATIONS FROM CANADIAN GAAP TO IFRS (continued)**

The Canadian GAAP consolidated statement of comprehensive loss for the year ended December 31, 2010 has been reconciled to IFRS as follows:

		For the year ended December 31, 2010		
	Notes	Canadian GAAP	Effect of transition to IFRS	IFRS
<b>Revenue</b>				
Petroleum and natural gas		\$ 368,080	\$ -	\$ 368,080
Royalty expense		(86,436)	-	(86,436)
		281,644	-	281,644
<b>Oil and gas production expenses</b>				
Operating costs		139,968	-	139,968
Depletion and depreciation	(c), (e)	260,950	(150,060)	110,890
		400,918	(150,060)	250,858
<b>Operating income</b>		<b>\$ (119,274)</b>	<b>\$ (150,060)</b>	<b>\$ 30,786</b>
<b>General and administrative expenses</b>				
Administrative, office services and premises		221,767	-	221,767
Management fees		408,761	-	408,761
Consulting fees		48,325	-	48,325
Professional fees		117,463	-	117,463
Filing and transfer agent fees		36,399	-	36,399
Shareholder information		1,979	-	1,979
Amortization		2,013	-	2,013
		836,707	-	836,707
<b>Other income (expenses)</b>				
Realized foreign exchange gain		24,444	-	24,444
Bad debt expense		(143,000)	-	(143,000)
Unrealized gain on investments		525,285	-	525,285
Loss on disposal of mineral properties	(f)	(980,018)	629,992	(350,026)
Loss on impairment	(b)	(1,113,003)	675,923	(437,080)
Gain on corporate acquisition		323,551	-	323,551
		(1,362,741)	1,305,915	(56,826)
<b>Loss before tax</b>		<b>(2,318,722)</b>	<b>1,455,975</b>	<b>(862,747)</b>
Future income tax expense		42,515	-	42,515
Net loss attributed to non-controlling interest		148,149	-	148,149
<b>Net loss and comprehensive loss</b>		<b>(2,509,386)</b>	<b>1,455,975</b>	<b>(1,053,411)</b>
<b>Basic and diluted loss per share</b>		<b>\$ (0.05)</b>	<b>\$</b>	<b>(0.02)</b>
<b>Weighted average shares outstanding</b>		<b>46,018,904</b>		<b>46,018,904</b>

**21. RECONCILIATIONS FROM CANADIAN GAAP TO IFRS** *(continued)*

**Explanation of the effect of the transition to IFRS**

**a) Exploration and evaluation properties**

In accordance with IAS 16 "Property, Plant and Equipment", IFRS 6 "Exploration and Evaluation of Mineral Resources" and as a result of the Company using the oil and gas exemption, the Company reallocated costs relating to the exploration and evaluation phase from other property and equipment to exploration and evaluation properties ("E&E"). Under Canadian GAAP, capitalized E&E properties were included in petroleum and natural gas interests ("P&NG") on the statement of financial position. While the accounting treatment is unchanged under IFRS other than expensing of pre-acquisition costs, E&E properties and P&NG are presented separately in the statement of financial position under IFRS. This has resulted in a reclassification from P&NG to E&E costs at January 1, 2010 and December 31, 2010 of \$379,129.

**b) Impairment**

Under IFRS, impairment tests for P&NG are performed at a CGU level. Canadian GAAP allowed impairment testing to be based on a full-cost ceiling test applied to the Company's aggregate petroleum and natural gas interest balance. Under IFRS, impairment is recognized if the carrying value exceeds the recoverable amount for a CGU. The recoverable amount is determined using the greater of the fair value less costs to sell based on discounted future cash flows and the value in use. As a result of the more granular impairment test required by IFRS compared to Canadian GAAP, the Company recognized a \$1,555,859 impairment on P&NG at the date of transition to IFRS and \$430,842 at December 31, 2010.

**c) Decommissioning liability**

Under Canadian GAAP, decommissioning obligations are measured at fair value, incorporating market assumptions and discount rates based on the Company's credit adjusted risk-free rate at the time the obligation arose. Changes in the discount rate did not result in the re-measurement of the entire obligation. Changes in estimates that decreased the liability are discounted using the rate applied upon initial recognition while changes that increase the liability are discounted using the current discount rate. Accretion expense resulting from the increase in the liability due to the passage of time was recorded in depreciation, depletion and accretion expense.

IFRS requires adjustments to the liability to be made each period for changes in the timing or amount of cash-flow, changes in discount rates and the accretion of the liability. Estimated future cash flows have been discounted using the risk-free rate. Under IFRS, accretion expense is recorded as a borrowing cost. As described previously, the Company has elected to use the oil and gas exemption and the exemption from full retrospective application of decommissioning liabilities. The Company has re-measured the liability relating to resource assets as at January 1, 2010 using the risk-free rate, and this has resulted in an increase to the liability at January 1, 2010 of \$31,702, with a corresponding increase in deficit.

The change to the decommissioning liability resulting from changes in the period end risk-free rates for the year ended December 31, 2010 was an increase of \$7,657 with increases to the cost of the corresponding assets.

The change to the decommissioning liability removed upon disposal of the Company's interest in the Dollard Lands was \$21,731 (see Note f) for the year ended December 31, 2010.

The reduction in accretion related to changes in the measurement basis of the liability was \$2,206 for the year ended December 31, 2010.



**21. RECONCILIATIONS FROM CANADIAN GAAP TO IFRS** *(continued)*

**d) Flow-through shares**

Flow-through shares are a Canadian tax incentive which is the subject of specific guidance under Canadian GAAP, however there is no specific guidance under IFRS. Under Canadian GAAP, when flow-through shares are issued they are recorded at face value. The related future tax liability is established for the tax effect of the difference between the tax bases and the book bases of the assets when renounced and is recorded as a reduction of share capital.

The Company has adopted a policy under IFRS where the proceeds from the offering are to be allocated between the sale of the shares and the sale of the tax benefit. The allocation is made based on the difference between the quoted market price of the existing shares and the amount an investor pays for the flow-through shares. A liability is established for this difference that is reversed upon renunciation of the tax benefit. The difference between this liability and the deferred tax liability is recorded as an income tax expense. This has resulted in a re-classification between deficit and share capital at January 1, 2010 of \$1,575,391.

**e) Depletion**

Canadian GAAP includes specific standards that prescribe the method for the calculation of depletion which does not exist under IFRS. Using full-cost accounting under Canadian GAAP, oil and gas assets are depleted using the unit-of-production method using remaining proved reserves. Under IFRS, the accounting policy for depletion includes proved and probable reserves, as this more accurately reflects the estimate for the usage of the resource assets. This has resulted in a decrease to depreciation and depletion expense of \$147,854 for the year ended December 31, 2010.

**f) Loss on disposal of mineral properties**

Under Canadian GAAP, when an oil and gas property is sold, a gain or loss is to be recorded when crediting the proceeds to costs results in a change of 20 percent or more in the depletion rate using full-cost accounting. Under IFRS, the carrying value of the property sold is more accurately determined as depletion, impairment and decommissioning liabilities are calculated at the CGU level and therefore the resulting gain or loss is recognized as the difference between the proceeds and the carrying value at the time of sale. This has resulted in a decrease in the loss on disposal of the Company's interest in the Dollard Lands of \$629,992 and an increase in the corresponding decommissioning liability removed of \$21,731 for the year ended December 31, 2010.

**22. Restatement of Consolidated Statement of Cash Flows from Canadian GAAP to IFRS**

The restatement from Canadian GAAP to IFRS had no significant effect on the reported cash flows generated by the Company for the year ended December 31, 2010. The reconciling items between Canadian GAAP presentation and IFRS have no effect on the cash flows generated.

**23. Subsequent Event**

On April 13, 2012, the Company announced that it has completed a share consolidation on a ten to one basis following Board of Director and shareholder approval on February 2, 2012. The Company currently has 46,139,482 issued and outstanding common shares. Post-consolidation, the Company will have approximately 4,613,948 shares outstanding. Outstanding stock options and warrants will similarly be adjusted by the consolidation ratio.

In connection with the completion of the share consolidation, the Company is changing its name to "Berkley Renewables Inc."