BERKLEY RESOURCES INC.

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2010 and 2009

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements are the responsibility of, and have been prepared by, the management of Berkley Resources 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 Canadian generally accepted accounting principles. 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 financial statements reflect estimates based on judgments of management.

Meyers Norris Penny 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 Resources 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 and management.

"signed"	*"signed"*
Matthew Wayrynen Chief Executive Officer	Pamela Lynch Chief Financial Officer

April 28, 2011

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Berkley Resources Inc.:

We have audited the accompanying consolidated financial statements of Berkley Resources Inc. and its subsidiary (hereinafter together referred to as the "Company") which comprise the consolidated balance sheets at December 31, 2010 and 2009 and the consolidated statements of loss and comprehensive loss, deficit and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting policies, and for such internal control as management determines is necessary to enable the preparation of consolidated 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 audits to obtain reasonable assurance about whether the financial statements are free from 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 auditors' 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 evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Berkley Resources Inc. and its subsidiary as at December 31, 2010 and 2009 and the results of their operations and their cash flows for the years then ended in accordance with Canadian generally accepted accounting policies.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which indicates that the Company has a net loss and comprehensive loss for the year of $2,509,386, accumulated losses of $12,848,608 and negative cash flows from operations of $667,781. 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.

Meyers Norris Penny LLP

Calgary, Canada
April 28, 2011

Chartered Accountants

BERKLEY RESOURCES INC.
CONSOLIDATED BALANCE SHEETS
For the Years Ended December 31

	2010	2009
ASSETS		
Current Assets		
Cash and cash equivalents	**$ 1,127,719**	$ 839,811
Accounts receivable	**42,824**	117,895
Share subscriptions receivable	**-**	191,000
Taxes recoverable	**41,228**	12,120
Marketable securities	**1,157,016**	-
Prepaid expenses	**81,009**	65,227
	2,449,796	1,226,053
Investment (Note 4)	**400,000**	-
Oil and gas property and equipment (Note 5)	**692,949**	3,903,544
Other property and equipment (Note 6)	**8,973**	1,207
	1,101,922	3,904,751
	$ 3,551,718	$ 5,130,804
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	**$ 352,424**	$ 220,776
Due to related parties (Note 11)	**30,687**	152,308
	383,111	373,084
Asset retirement obligation (Note 7)	**60,174**	144,838
	443,285	517,922
Non-controlling interest	**951,265**	-
SHAREHOLDERS' EQUITY		
Share Capital (Note 8)	**13,272,763**	13,219,091
Contributed Surplus (Note 9)	**1,733,013**	1,733,013
Deficit	**(12,848,608)**	(10,339,222)
	2,157,168	4,612,882
	$ 3,551,718	$ 5,130,804

Going concern (Note 1)

Approved by the Directors:

"Matt Wayrynen " Director *"Tyrone Docherty"* Director

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

BERKLEY RESOURCES INC.
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
For the Years Ended December 31

		2010		2009
OIL AND GAS REVENUE				
Petroleum and natural gas sales	$	368,080	$	600,452
Royalty expense		(86,436)		(138,443)
Net oil and gas revenue		281,644		462,009
Oil and gas production expenses				
Operating costs		139,968		336,483
Amortization, depletion and accretion		260,950		430,431
		400,918		766,914
NET OIL AND GAS INCOME (LOSS)		(119,274)		(304,905)
GENERAL AND ADMINISTRATIVE EXPENSES				
Administrative, office services and premises		221,767		137,767
Stock-based compensation		-		13,920
Management fees		408,761		323,822
Consulting fees		48,325		23,833
Professional fees		117,463		84,135
Filing and transfer agent fees		36,399		25,420
Shareholder information		1,979		3,373
Amortization		2,013		289
		(836,707)		(612,559)
OTHER INCOME (EXPENSES)				
Realized foreign exchange gain		24,444		464
Bad debt expense		(143,000)		-
Unrealized gain on investments		525,285		-
Loss on disposal of mineral properties (Note 5)		(980,018)		-
Loss on impairment (Note 5)		(1,113,003)		-
Gain on corporate acquisition (Note 3)		323,551		-
		(1,362,741)		464
LOSS BEFORE TAX		(2,318,722)		(917,000)
Future income tax expense		42,515		-
Net loss attributed to non-controlling interest		148,149		-
NET LOSS AND COMPREHENSIVE LOSS FOR THE YEAR	$	(2,509,386)	$	(917,000)
BASIC AND DILUTED NET LOSS PER SHARE	$	(0.05)	$	(0.04)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING FOR THE YEAR		46,018,904		24,570,152

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

BERKLEY RESOURCES INC.
CONSOLIDATED STATEMENTS OF DEFICIT
For the Years Ended December 31

		2010		2009
DEFICIT, beginning of year	**$**	**(10,339,222)**	$	(9,422,222)
Net loss and comprehensive loss for the year		**(2,509,386)**		(917,000)
DEFICIT, end of year	**$**	**(12,848,608)**	$	(10,339,222)

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

BERKLEY RESOURCES INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31

	2010	2009
CASH PROVIDED BY (USED IN) FROM CONTINUING OPERATIONS		
OPERATING ACTIVITIES		
Net loss and comprehensive loss for the year	**$ (2,509,386)**	$ (917,000)
Items not requiring cash in the year		
Amortization, depletion and accretion	**262,963**	430,720
Fair value of options issued for services	**-**	2,319
Impairment loss	**1,113,003**	-
Gain on corporate acquisition	**(323,551)**	-
Loss on disposal of mineral properties	**980,018**	-
Unrealized gain on investments	**(525,285)**	-
Future income tax expense	**42,515**	-
Non-controlling interest	**148,149**	-
Stock-based compensation	**-**	13,920
	(811,574)	(470,041)
Change in non-cash working capital (Note 14)	**143,793**	(233,962)
	(667,781)	(704,003)
INVESTING ACTIVITIES		
Proceeds on disposition of oil and gas properties	**1,298,025**	1,489,900
Purchase of marketable securities	**(87,178)**	-
Purchase of investment in Trichoscience (Note 4)	**(400,000)**	-
Purchase of oil and gas property and equipment	**(221,215)**	(25,152)
Acquisition of business, net of cash received (Note 3)	**272,489**	-
Change in non-cash working capital (Note 14)	**-**	(1,017,586)
	862,121	447,162
FINANCING ACTIVITIES		
Advances (repayments) from related parties	**(97,432)**	132,699
Issuance of common shares (net of issue costs)	**-**	1,068,500
Changes in non-cash working capital (Note 14)	**191,000**	(191,000)
	93,568	1,010,199
Increase in cash and cash equivalents	**287,908**	753,358
Cash and cash equivalents, beginning of year	**839,811**	86,453
Cash and cash equivalents, end of year	**$ 1,127,719**	$ 839,811
Cash and cash equivalents are comprised of:		
Cash	**1,127,719**	734,811
Cash held in trust	**-**	105,000
	$ 1,127,719	$ 839,811

No income taxes or interest paid during the year (2009 - $nil).

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

1. Nature of Operations and Going Concern

Berkley Resources Inc. ("Berkley") 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. Berkley is in the business of acquisition, exploration, development and production from petroleum and natural gas interests in Alberta, Canada.

On July 8, 2010, Berkley acquired a 53% interest in American Uranium Corporation ("AUC") (Note 3). 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 and AUC (hereinafter together referred to as the "Company") 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. Berkley has a net loss and comprehensive loss for the year of $2,509,386 (2009 - $917,000), accumulated losses of $12,848,608 (2009 - $10,339,222) and negative cash flows from operations of $667,781 (2009 - $704,033). As at December 31, 2010, Berkley had working capital of $2,066,685 (2009 - $852,969).

Berkley'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 balance sheet classifications used.

2. Significant Accounting Policies

These consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP"). Significant accounting policies are summarized below:

a) Basis of presentation

The accompanying consolidated financial statements are stated in Canadian dollars and have been prepared in accordance with Canadian GAAP. Berkley has consolidated the assets, liabilities, revenues and expenses of AUC after the elimination of intercompany transactions and balances. The consolidated financial statements include the accounts of Berkley, and its 53% interest in American Uranium Corporation (Note 3).

b) Cash and cash equivalents

Cash and cash equivalents consists of cash on hand, balances with banks and cash held in trust.

c) Revenue recognition

Revenue from the sale of crude oil, natural gas and liquids is recognized when title passes to the third party purchaser, delivery has taken place and collection is reasonably assured.

2. Significant Accounting Policies - *Continued*

d) Oil and gas property and equipment

Berkley follows the full cost method of accounting for oil and gas property and equipment whereby all costs of acquiring, exploring for and developing oil and gas reserves are capitalized. Such costs include land acquisition costs, geological and geophysical expenses, carrying charges on non-producing properties, costs of drilling both productive and non-productive wells, costs of production equipment and overhead charges relating to acquisition, exploration and development activities. Berkley does not capitalize interest or administrative expenses. Capitalized costs of proven reserves and oilfield equipment are depleted using a unit of production method based upon estimated proven reserves before royalties. For purposes of this calculation, reserves are converted to common units on the basis that six thousand cubic feet of natural gas is equivalent to one barrel of oil.

Costs of acquiring and evaluating unproved properties are initially excluded from depletion calculations. These unevaluated properties are assessed periodically to ascertain whether impairment has occurred. When proved reserves are assigned or the property is considered to be impaired, the cost of the property or the amount of the impairment is added to costs subject to depletion calculations.

Proceeds received from the disposition of oil and gas properties are credited to the relevant cost centre unless this results in a change of 20% or more in the depletion rate. In the event of a significant sale of reserves, a proportionate amount of cost and accumulated depletion, based upon the ratio of reserves sold to total reserves, is removed from the appropriate cost centre and the resultant profit or loss taken into earnings.

Berkley performs a ceiling test in a two-stage test performed at least annually:

i) Impairment is recognized if the carrying value of the oil and gas assets less accumulated depletion and amortization and the lesser of cost and fair value of unproven properties exceeds the estimated future cash flows from proved oil and gas reserves, on an undiscounted basis, using forecast prices and costs.

ii) If impairment is indicated by applying the calculations described in i) above, Berkley will measure the amount of the impairment by comparing the carrying value of the oil and gas assets less accumulated depletion and amortization and the lesser of cost and fair value of unproven properties to the estimated future cash flows from the proved and probable oil and gas reserves, discounted at Berkley's risk-free rate of interest, using forecast prices and costs. Any impairment is included in earnings for the year.

Substantially all of Berkley's oil and gas interests are conducted jointly with others. The consolidated financial statements reflect only Berkley's share of these assets, liabilities, and operations.

e) Asset retirement obligation

The recognition of the fair value of obligations associated with the retirement of tangible long-lived assets are recorded in the period the asset is put to use, with the corresponding increase to the carrying amount of the related asset. The obligations recognized are statutory, contractual or legal obligations. The liability is accreted over time for changes in the fair value of the liability through charges to accretion expense which is included in amortization, depletion, and accretion expense. The costs capitalized to the related assets are amortized to earnings in a manner consistent with the depreciation and amortization of the underlying assets. Revisions to the estimated timing of cash flows or to the original estimated undiscounted costs could also result in an increase or decrease to the obligation. Actual costs incurred upon settlement of the retirement obligation are charged against the obligation to the extent of the liability recorded.

f) Other property and equipment

Other property and equipment consist of computer equipment and furniture, fixtures and equipment and are amortized at the following rates per annum by the declining balance method:

Computer equipment	30%
Furniture, fixtures and equipment	20%

2. Significant Accounting Policies - *Continued*

g) Financial instruments

Berkley's financial instruments include cash and cash equivalents, accounts receivable, taxes recoverable, share subscriptions receivable, marketable securities, due to related parties, and accounts payable and accrued liabilities. Upon initial recognition, all financial instruments are recorded on the balance sheet at fair value. The carrying values of these financial instruments approximate their fair values. Subsequent measurement is then based on the financial instruments being classified into one of five categories: held for trading, held to maturity, loans and receivables, available for sale and other liabilities. Berkley has designated its cash and cash equivalents and marketable securities as held for trading which are measured at fair value. Gains and losses related to periodic revaluation are recorded to net income or loss. Accounts receivable, share subscriptions receivable and taxes recoverable are classified as loans and receivables and are measured at amortized cost determined using the effective interest method. Accounts payable and accrued liabilities and due to related parties are classified as other liabilities and are measured at amortized cost determined using the effective interest method.

h) Use of estimates

The preparation of financial statements in conformity with Canadian GAAP 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. Actual results could differ from those estimates. The amounts recorded for depletion and depreciation of petroleum and natural gas properties and other property and equipment, the provision for asset retirement obligations, valuation allowances for future income tax assets and stock-based compensation expense are based on estimates. The ceiling test is based on estimates of proven reserves, production rates, oil and gas prices and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect on the consolidated financial statements of changes in such estimates, in future periods, could be significant.

i) Stock-based compensation

Stock-based compensation expense is recorded for the estimated fair value of stock options granted. The estimated fair value of the options at the date of grant is accrued and charged to operations, with an offsetting credit to contributed surplus, on a straight-line basis over the vesting period. If and when the stock options are ultimately exercised, the applicable amounts of contributed surplus are transferred to share capital. In the event that vested options expire, previously recognized compensation expense associated with such stock options is not reversed. In the event that unvested options are cancelled, previously recognized compensation expense associated with such options is reversed.

j) Net loss per share

Basic net loss per share is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding during the year. The computation of diluted net loss per share assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on loss per share. The dilutive effect of convertible securities is reflected in diluted net loss per share by application of the "if converted" method. The dilutive effect of outstanding options and warrants and their equivalents is reflected in diluted net loss per share by application of the treasury stock method. This method assumes the proceeds from the exercise of dilutive options and warrants are used to purchase common shares at the weighted average market price during the year.

2. Significant Accounting Policies – *Continued*

k) Income taxes

Berkley follows the asset and liability method of accounting for future income taxes. Under this method, future income tax assets and liabilities are recorded based on temporary differences between the carrying amount of balance sheet items and their corresponding tax bases. In addition, the future benefits of income tax assets, including unused tax losses, are recognized, subject to a valuation allowance, to the extent that it is more likely than not that such future benefits will ultimately be realized. Future income tax assets and liabilities are measured using enacted tax rates and laws expected to apply when the tax liabilities or assets are to be either settled or realized.

l) Flow-through shares

Canadian Income Tax Legislation permits an enterprise to issue securities referred to as flow-through shares, whereby the investor can claim the tax deductions arising from the renunciation of the related resource expenditures. When resource expenditures are renounced to the investors, future income tax liabilities are recognized thereby reducing share capital.

m) Recent accounting pronouncements

Business combinations

The Canadian Institute of Chartered Accountants' released new recommendations for accounting for business combinations, CICA 1582 Business Combinations. Previously, the acquirer measured and recognized assets acquired and liabilities assumed in a business combination based on the more reliably measurable of the fair value of the consideration given or its share of the fair value of the net assets or equity interests acquired. In addition, the non-controlling interest was initially measured at its share of the book value of the net assets acquired. Under CICA 1582, the acquirer measures and recognizes the acquiree, as a whole, and the assets acquired and liabilities assumed at their fair values as of the acquisition date. The non-controlling interest is initially measured at fair value or as its share of the fair value of the net assets acquired, including its share of goodwill. This section is applicable for year-ends beginning on or after January 1, 2011. The Company has not early adopted this section and is currently assessing the impact it will have on its consolidated financial statements.

Non-controlling interests

The Canadian Institute of Chartered Accountants' released new recommendations for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination, CICA 1602 Non-Controlling Interests. Previously, increases in the ownership percentage of the subsidiary not resulting in a loss of control were accounted for using the purchase method, while decreases were recognized as sales of a portion of the subsidiary resulting in gains or losses. In addition, a negative balance in non-controlling interest could not be created unless the non-controlling interest had guaranteed obligations or otherwise committed to provide further financial support of the subsidiary. Under CICA 1602, increases and decreases in ownership percentage of the subsidiary not resulting in a loss of control are accounted for as equity transactions. Also, CICA 1602 allows a deficit balance if accumulated losses attributable to non-controlling interests exceeds its carrying amount. This section is applicable for year-ends beginning on or after January 1, 2011. The Company has not early adopted this section and is currently assessing the impact it will have on its consolidated financial statements

2. Significant Accounting Policies – *Continued*

n) Future accounting pronouncements:

International Financial Reporting Standards ("IFRS")

On January 1, 2011 International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") will become the generally accepted accounting principles in Canada. The adoption date of January 1, 2011 will require the restatement, for comparative purposes, of amounts reported by Berkley for the year ended December 31, 2010, including the opening balance sheet as at January 1, 2010. The transition from Canadian GAAP to IFRS is significant with differences affecting the financial position and results of operations. Berkley has identified the key differences and is progressing with its changeover plan to adopt IFRS on the transition date.

3. Corporate Acquisition

On July 8, 2010, Berkley acquired a 53% interest in American Uranium Corporation for cash consideration of $472,765 (US$470,226). 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. The acquisition was accounted for using the purchase 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	**718,909**
Prepaid expenses	**20,894**
Equipment	**5,621**
Future income tax asset generated on acquisition	**80,218**
Accounts payable	**(38,930)**
Due to a related party	**(29,483)**
Negative goodwill	**(323,551)**
	1,178,932
Non-controlling interest on acquisition	**(706,167)**
	$ 472,765

4. Investment

During the year, Berkley acquired 400,000 common shares of Trichoscience Innovations Inc. ("Trichoscience") at a price of $1.00 per share. Berkley's investment represents 2.3% ownership in Trichoscience and has been recorded at cost.

5. Oil and Gas Property and Equipment

	2010	2009
Oil and gas property and equipment, cost	**$ 14,994,961**	$ 17,951,902
Less: Accumulated amortization, depletion and impairment	**(14,302,012)**	(14,048,358)
	$ 692,949	$ 3,903,544

At December 31, 2010, oil and gas property and equipment includes the cost of unproven properties of approximately $379,129 (2009 - $379,129), which are currently not subject to depletion.

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 (2009 – $289,900) and a loss on disposition of $980,018 (2009 - $nil) was recorded.

On March 6, 2009, Berkley announced it had executed a participation agreement with an Alberta-based oil and gas company (the "Seller"), whose management is related to a Director of Berkley, to participate in drilling an exploratory well in the Ferrier area of west-central Alberta. Under the terms of the agreement, effective October 1, 2008, Berkley was to pay an aggregate $1,200,000 for an 18% interest in the well. Berkley claimed $1,200,000 in Canadian Exploration Expense renunciation in 2008 to meet Berkley's flow-through share renunciation commitment. On March 1, 2009, Berkley assigned 25% of its existing 50% interest in a project to the Seller, valued at $350,000, to reduce the amount owed to $850,000. On March 16, 2009, Berkley determined that it was unable to raise the remaining proceeds for the purchase and transferred its 18% interest back to the Seller to reduce the payable to $nil.

The benchmark prices, on which the ceiling test is based, are as follows:

	Crude Oil Edmonton PAR	Natural Gas AECO
Year	CDN$/bbl	CDN$/mcf
2011	82.80	4.10
2012	88.80	4.60
2013	94.05	5.20
2014	98.15	5.50
2015	105.80	5.75
2016	113.70	6.20
2017	116.05	6.55
2018	118.35	7.00
2019	120.75	7.30
2020	123.15	7.45

Benchmark prices increase at a rate of 2% per year for both oil and gas after 2020.

For the year ended December 31, 2010, a ceiling test write-down of $1,106,764 was required (2009 - $nil).

6. Other Property and Equipment

		Cost		Accumulated Amortization		**Net book value 2010**		Net book value 2009
Computer equipment	$	33,782	$	29,395	$	**4,387**	$	104
Furniture, fixtures and equipment		9,199		7,672		**1,527**		1,103
Leasehold improvements		4,078		1,019		**3,059**		-
	$	47,059	$	38,086	$	**8,973**	$	1,207

7. Asset Retirement Obligation

The following table sets out the activity for Berkley's asset retirement obligation:

		2010		2009
Asset retirement obligations, beginning of year	**$**	**144,838**	$	198,656
Accretion		**7,295**		8,200
Disposition of working interest		**(91,959)**		(62,018)
Asset retirement obligations, end of year	**$**	**60,174**	$	144,838

Berkley estimates the total undiscounted amount of cash flows required to settle its asset retirement obligation is approximately $198,832 (2009 – $282,472) which will be incurred between 2017 and 2029. The majority of these obligations will be incurred in 2017. The asset retirement obligation assumes a credit adjusted discount rate of 6% (2009 – 6%) and an inflation rate of 1.5% (2009 – 1.5%).

8. Share Capital

a) Authorized:

Unlimited common shares, without par value

	December 31, 2010			December 31, 2009		
Issued and fully paid:	**Number of Shares**		**Amount**	Number of Shares		Amount
Balance, beginning of year	**45,066,042**	$	**13,219,091**	23,696,042	$	12,683,811
Issued in the year for cash:						
Pursuant to private placements (i):						
- non flow-through for cash	**-**		**-**	21,370,000		1,068,500
Shares issued for debt (ii)	**1,073,440**		**53,672**			
Fair value of private placement warrants	**-**		**-**	-		(533,220)
Balance, end of year	**46,139,482**	$	**13,272,763**	45,066,042	$	13,219,091

(i) On December 16, 2009, Berkley closed a non-brokered private placement of 21,370,000 units at a price of $0.05 per unit for gross proceeds of $1,068,500. Each unit consists of one common share and one non-transferable share purchase warrant. Each share purchase warrant will entitle the holder to purchase one additional share at a price of $0.10 for one year. The fair value of the warrants was estimated to be $533,220. The fair value was estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions: risk free interest rate of 1.1%, dividend yield of 0%, volatility factor of 145%, and an average life of one year. Should these warrants be exercised the applicable amount of contributed surplus will be transferred to share capital.

8. Share Capital – *Continued*

(ii) 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.

b) Warrants

	2010		2009	
	Number of Shares Subject to Warrants	**Exercise price range**	Number of Shares Subject to Warrants	Exercise price range
Outstanding, beginning of year	**21,370,000**	**$0.10**	2,119,999	$0.30/$1.00
Issued	**-**	**-**	21,370,000	$0.10
Expired	**-**	**-**	(2,119,999)	$0.30/$1.00
Outstanding, end of year	**21,370,000**	**$0.10**	21,370,000	$0.10

At December 31, 2010 the following share purchase warrants were outstanding:

Exercise price Range	Expiry date	**2010 Number of Warrants**	2009 Number of Warrants
$0.10	December 16, 2011	**21,370,000**	21,370,000

c) Stock options

At Berkley's AGM, Berkley proposed a resolution to its shareholders to adopt a 2010 Stock Option Plan (the "Plan") which provides for the granting of options to acquire up to 10% of Berkley's issued and outstanding shares. The Plan provides for the granting of options to employees and service providers, with no single optionee to be granted options in excess of 5% of the number of issued shares of Berkley. All options are to be granted at fair value and the term of the options granted is not to exceed five years. The shareholders of Berkley did not approve the new Stock Option Plan and no new stock options were granted during the period, however; a total of 790,000 options had been granted and are outstanding at December 31, 2010 under the prior plan (2009 – 1,267,500). Options granted under the prior plan are fully vested at December 31, 2010 and 2009.

8. Share Capital - *Continued*

c) Stock options - *continued*

	December 31, 2010		December 31, 2009	
	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	**1,267,500**	**$0.69**	1,815,000	$0.71
Activity in the year:				
Expired	**(477,500)**	**$0.90**	(237,500)	$0.80
Cancelled	**-**	**-**	(310,000)	$0.74
Balance outstanding, end of year	**790,000**	**$0.56**	1,267,500	$0.69
Exercisable, end of year	**790,000**	**$0.56**	1,267,500	$0.69

A summary of stock options outstanding is as follows:

		Number of Shares Remaining Subject to Option at End of Year	
Exercise Price Per Share	**Expiry Date**	**December 31, 2010**	December 31, 2009
$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
		790,000	1,267,500

9. Contributed Surplus

		2010		2009
Balance, beginning of year	**$**	**1,733,013**	$	1,183,554
Stock-based compensation on vested options		**-**		13,920
Stock-based compensation on vested options for consulting services		**-**		2,319
Fair value of issued warrants (Note 8a)		**-**		533,220
Balance, end of year	**$**	**1,733,013**	$	1,733,013

10. Income Taxes

a) Reconciliation of accounting and taxable income, for the years ended December 31 are as follows:

	2010	2009
Net loss for the year before taxes	**$ (2,509,386)**	$ (917,000)
Combined federal and provincial income tax rate	**28.00%**	29.00%
Computed income tax expense (reduction)	**(702,628)**	(265,930)
Increase (decrease) resulting from		
Stock-based compensation	**-**	4,709
Interest and penalties	**2,426**	-
Meals and entertainment	**210**	657
Tax adjustment from rate change and other	**(1,414,501)**	21,729
Change in valuation allowance	**2,157,008**	238,835
Income tax expense	**$ 42,515**	$ -

b) The components of the future income tax asset (liability) balances for the years ended December 31, are as follows:

	2010	2009
Future income tax assets		
Non-capital losses	**$ 2,334,693**	$ 241,867
Share issuance costs	**-**	16,466
Property and equipment	**1,296,178**	1,131,037
Asset retirement obligation	**15,044**	38,763
Cumulative eligible capital	**1,308**	1,505
Marketable securities	**(60,757)**	-
Valuation allowance	**(3,586,466)**	(1,429,638)
Future income tax asset (liability)	**$ -**	$ -

Future income tax assets are recorded when it is more likely than not, that they will be recovered in future periods. A full valuation allowance has been taken on the future income tax assets as this criteria has not been met.

c) Berkley has non-capital losses which may be applied to reduce future years' taxable income. At December 31, 2010, these losses expire as follows:

	Canada	United States
2014	79,292	-
2015	208,700	-
2026	581,795	23,196
2027	-	36,268
2028	33,275	2,432,042
2029	-	1,770,113
2030	398,465	939,808
	$ 1,301,527	$ 5,201,427

10. Income Taxes – *Continued*

d) Canadian development and exploration expenditures

As at December 31, 2010, Berkley had $4,938,792 (2009 - $7,118,746) of unused Canadian exploration and development expenses available to offset future taxable income of Berkley. The tax benefit of these expenses carry forward indefinitely.

11. Related Party Transactions

In addition to related party transactions disclosed elsewhere in the consolidated financial statements:

a) Due to related parties consists of $35,708 (2009 - $118,012) due to Directors of Berkley for Directors fees, consulting fees and expenses; and $14,979 (2009 - $34,296) to a private company owned by public companies having common Directors that provide administrative services, office supplies and accounting services. Included in due to related parties is $20,000 advanced to a Director during the year.

b) Management and consulting fees totalling $204,500 were paid to Directors and their private companies in 2010 (2009 - $180,773); and rent expense totalling $22,857 (2009 - $19,130) 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.

   Administrative services, office supplies and accounting charges totalling $46,754 were paid to Oniva during 2010 (2009 - $67,143). $11,974 remained payable at year-end (2009 - $34,296).

The transactions were in the normal course of operations and agreed to by the related party and Berkley and have had been measured at the exchange amount.

12. Risk Management

The carrying values of financial assets and liabilities approximate their fair value due to their short periods to maturity. Berkley is not exposed to significant currency risk on its financial instruments.

Berkley manages its exposure to financial risks by operating in a manner that minimizes its exposure to the extent practical. The main financial risks affecting Berkley are discussed below:

(a) Credit Risk

Credit risk arises when a failure by counter parties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the balance sheet date. Berkley considers this risk to be limited.

(b) Liquidity Risk

Liquidity risk includes the risk that, as a result of Berkley's operational liquidity requirements:
• Berkley will not have sufficient funds to settle transactions on the due date;
• Berkley will be forced to sell financial assets at a value which is less than what they are worth; or
• Berkley may be unable to settle or recover a financial asset at all.

Berkley considers this risk to be limited.

12. Risk Management - *Continued*

(c) 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.

(d) Fair Value of Financial Instruments

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.
- Level 3 – inputs to the valuation methodology are not based on observable market data.

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

(e) Foreign Currency Risk

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. As at December 31, 2010, the following items are denominated in United States currency:

	2010	2009
	CAD$	CAD$
Cash	**792**	-
Accounts payable	**2,763**	-

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

13. Capital Disclosures

Berkley defines its capital to include the following:

	As at December 31,	
	2010	2009
Cash and cash equivalents	**1,127,719**	839,811
Shareholders' equity	**2,157,168**	4,612,882

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. Berkley is not subjected to any externally imposed capital requirements.

14. Supplemental Cash Flow Information

	2010	2009
Change in non-cash working capital items:		
Accounts receivable	**75,071**	58,176
Share subscriptions receivable	**191,000**	(191,000)
Taxes recoverable	**(29,108)**	2,099
Prepaid expenses	**5,112**	(47,632)
Accounts payable and accrued liabilities	**92,718**	(1,264,191)
Net change in non-cash working capital items	**334,793**	(1,442,548)
Amounts relating to operating activities	**143,793**	(233,962)
Amounts relating to investing activities	**-**	(1,017,586)
Amounts relating to financing activities	**191,000**	(191,000)

15. Comparative Numbers

Certain of the comparative numbers for the year ended December 31, 2009 have been reclassified to be consistent with the presentation in the current year.