BERKLEY RESOURCES INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2008 and 2007

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The financial statements and other financial information included in the 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 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. Financial information presented elsewhere in the financial statements is consistent, where applicable, with that shown in the accompanying financial statements.

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

The 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.

"Signed"	*"Signed"*
Matt Wayrynen	Pamela Lynch
Executive Chairman and Chief Executive Officer	Chief Financial Officer

April 15, 2009

AUDITORS' REPORT

To the Shareholders of Berkley Resources Inc.:

We have audited the balance sheets of Berkley Resources Inc. (the “Company”) as at December 31, 2008 and 2007 and the statements of operations and comprehensive loss, deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Meyers Norris Penny LLP

Calgary, Canada
April 15, 2009

MEYERS NORRIS PENNY LLP
Chartered Accountants

BERKLEY RESOURCES INC.
BALANCE SHEETS
As at December 31

	2008	2007
ASSETS		
Current Assets		
Cash	$ 86,453	$ 47,057
Accounts receivable	176,071	247,372
Taxes recoverable	14,219	12,168
Prepaid expenses	17,595	6,120
	294,338	312,717
Oil and gas property and equipment (Note 5)	5,852,540	5,456,007
Other property and equipment (Note 6)	1,497	3,048
	5,854,037	5,459,055
	$ 6,148,375	$ 5,771,772
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities (Note 16)	$ 1,484,967	$ 982,386
Due to related parties (Note 12b)	19,609	14,261
	1,504,576	996,647
Asset retirement obligation (Note 8)	198,656	140,150
	1,703,232	1,136,797
SHAREHOLDERS' EQUITY		
Share Capital (Note 9)	12,683,811	12,347,593
Contributed Surplus (Note 10)	1,183,554	1,030,532
Deficit	(9,422,222)	(8,743,150)
	4,445,143	4,634,975
	$ 6,148,375	$ 5,771,772

Going concern (Note 1)
Subsequent events (Note 16)

Approved by the Directors:

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

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

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

	2008	2007
OIL AND GAS REVENUE		
Petroleum and natural gas sales	$ 1,560,485	$ 1,715,924
Royalty expense	(298,199)	(283,490)
Net oil and gas revenue	1,262,286	1,432,434
Oil and gas production expenses		
Operating costs	499,804	733,823
Interest on loans	-	134,264
Amortization, depletion and accretion	670,341	1,428,068
Write-down of oil and gas properties	-	4,083,000
	1,170,145	6,379,155
NET OIL AND GAS INCOME (LOSS)	92,141	(4,946,721)
GENERAL AND ADMINISTRATIVE EXPENSES		
Administrative, office services and premises	252,450	327,956
Stock-based compensation	81,501	219,451
Management fees	192,000	296,999
Consulting fees	19,281	173,140
Professional fees	111,230	168,855
Filing and transfer agent fees	18,989	21,131
Shareholder information	8,852	44,224
Amortization	1,551	2,054
	(685,854)	(1,253,810)
OTHER INCOME (EXPENSES)		
Interest expense	(16,200)	(50,593)
Write-down of receivable	(73,202)	-
Interest and other income	4,043	7,517
	(771,213)	(1,296,886)
LOSS BEFORE INCOME TAXES AND DISCONTINUED OPERATIONS	(679,072)	(6,243,607)
Recovery of future income taxes (Note 11a)	-	863,031
LOSS BEFORE DISCONTINUED OPERATIONS	(679,072)	(5,380,576)
Discontinued operations (Note 2)	-	1,854,654
NET LOSS AND COMPREHENSIVE LOSS FOR THE YEAR	$ (679,072)	$ (3,525,922)
BASIC AND DILUTED NET LOSS PER SHARE BEFORE DISCONTINUED OPERATIONS	$ (0.03)	$ (0.27)
BASIC AND DILUTED NET LOSS PER SHARE AFTER DISCONTINUED OPERATIONS	$ (0.03)	$ (0.18)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING – BASIC AND DILUTED	22,484,668	20,063,734

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

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

	2008	2007
DEFICIT, beginning of year	$ (8,743,150)	$ (5,082,981)
Change in accounting policy (Note 3f)	-	(134,247)
Net loss and comprehensive loss for the year	(679,072)	(3,525,922)
DEFICIT, end of year	$ (9,422,222)	$ (8,743,150)

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

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

	2008	2007
CASH PROVIDED BY (USED IN) FROM CONTINUING OPERATIONS		
OPERATING ACTIVITIES		
Net loss and comprehensive loss for the year from continuing operations	$ (679,072)	$ (5,380,576)
Items not requiring cash in the year		
Amortization, depletion and accretion	671,892	1,430,122
Fair value of options issued for services	7,009	2,269
Write-down of oil and gas properties	-	4,083,000
Recovery of future income taxes	-	(863,031)
Stock-based compensation	81,501	219,451
	81,330	(508,765)
Change in non-cash working capital (Note 15)	(601,142)	(10,437)
	(519,812)	(519,202)
INVESTING ACTIVITIES		
Proceeds on disposition of oil and gas property	300,000	-
Purchase of oil and gas property and equipment	(1,308,368)	(2,381,576)
Purchase of other property and equipment	-	(378)
Change in non-cash working capital (Note 15)	1,166,846	296,911
	(361,334)	(2,604,245)
FINANCING ACTIVITIES		
Issuance of common shares (net of issue costs)	400,730	1,637,090
Increase (decrease) in cash from continuing operations	39,396	(967,155)
Increase in cash from discontinued operations (Note 2)	-	515,966
Cash, beginning of year	47,057	498,246
Cash, end of year	$ 86,453	$ 47,057
SUPPLEMENTAL STATEMENTS OF CASH FLOWS DISCLOSURE		
Interest paid on long-term debt	$ -	$ 249,910

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

1. Nature of Operations and Going Concern

Berkley Resources Inc. (the "Company" or "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. The Company is in the business of acquisition, exploration, development and production from petroleum and natural gas interests in Alberta and Saskatchewan, Canada. The Company also rented commercial office space in a building it owned in Vancouver, Canada. The commercial rental operations were discontinued as a result of the sale of the building during the year ended December 31, 2007 (Note 2).

These financial statements have been prepared on the basis of accounting principles applicable to a going concern which assumes that Berkley will continue in operation for the foreseeable future in regards to its oil and gas operations 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 incurred significant operating losses over the past several fiscal years. As at December 31, 2008, the Company had a working capital deficit of $1,210,238 (2007 – $683,930).

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 the Company has 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 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. Discontinued Operations

During March 2007, the Company entered into an agreement to sell its real estate assets in Vancouver, British Columbia. Therefore the real estate segment is disclosed as discontinued operations on the Statement of Operations and Comprehensive Loss. The rental property asset was sold for $4,000,000 on August 31, 2007 and had a carrying value of $2,038,924 which resulted in a gain on the sale of $1,949,368. There were costs of $11,708 in legal fees applied against the sale. Proceeds of the sale were used to pay out the loans entirely to the Canadian Imperial Bank of Commerce ($539,749) and Quest Capital Corp. ($2,800,000) plus accrued interest on the loans of $37,863.

2. Discontinued Operations – *Continued*

Summarized financial information relating to the discontinued operations are as follows:

Operating results:

	2008	2007
Rental revenue	$ -	$ 165,490
Rental operation expenses		
Operating costs	-	144,558
Interest on bank loan	-	115,646
	-	260,204
Net rental loss before other items	-	(94,714)
Gain on sale of asset	-	1,949,368
Net rental gain	$ -	$ 1,854,654

Cash flows:

	2008	2007
Operating activities		
Gain for the year	$ -	$ 1,854,654
Gain on disposal of building	-	(1,949,368)
	-	(94,714)
Investing activities		
Proceeds from sale of building, net	-	3,988,292
Financing activities		
Bank and other loans repaid	-	(3,377,612)
Net cash increase from discontinued operations	$ -	$ 515,966

3. Significant Accounting Policies

a) Basis of presentation

The accompanying financial statements are stated in Canadian dollars and have been prepared in accordance with Canadian generally accepted accounting principles.

b) 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. The Company assesses third party purchaser credit worthiness, both before entering into contracts and throughout the revenue recognition process.

Rental revenue is recognized on a monthly basis under the terms of lease agreements with tenants.

c) 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. The Company does not capitalize interest or administrative expenses.

Capitalized costs of proven reserves and 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.

Unless a significant amount of reserves are involved, 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 income.

The Company 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, the Company 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 the Company's risk-free rate of interest, using forecast prices and costs. Any impairment is included in earnings for the year.

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

3. Significant Accounting Policies - *Continued*

d) **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 asset retirement accretion 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.

e) **Other property and equipment**

Other property and equipment consist of computer equipment, 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%

f) **Financial instruments**

The Company's financial instruments include cash, accounts receivable, 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. The Company has designated its cash as held for trading which is measured at fair value. Gains and losses related to periodic revaluation are recorded to net income or loss. Accounts receivable are classified as loans and receivables and are measured at amortized cost determined using the effective interest method. Accounts payable and accrued liabilities, due to related parties and the revolving line of credit are classified as other liabilities and are measured at amortized cost determined using the effective interest method.

Prior to January 1, 2007 transaction costs were recorded as deferred financing fees and recognized in the statement of operations on a straight-line basis over the life of the financial instrument based on the principal outstanding. Upon adoption of Section 3855, the Company chose to recognize transaction costs relating to bank loans of discontinued operations in net income immediately. Thus a charge to retained earnings as outlined below was required.

	January 1, 2008	January 1, 2007
Deficit - increase	-	134,247
Deferred financing fees - decrease	-	134,247

There were no other adjustments recorded on the adoption of this standard.

3. Significant Accounting Policies – *Continued*

g) **Use of estimates**

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The amounts recorded for depletion and depreciation of petroleum and natural gas properties, 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 financial statements of changes in such estimates, in future periods, could be significant.

h) **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.

i) **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 period. 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 period.

j) **Income taxes**

The Company 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.

3. Significant Accounting Policies - *Continued*

k) 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 and the Company has reasonable assurance that the expenditures will be completed, future income tax liabilities are recognized (renounced expenditures multiplied by the effective tax rate) thereby reducing share capital.

If a company has sufficient unused tax losses and deductions ("losses") to offset all or part of the future income tax liabilities and no future income tax assets have been previously recognized on such losses, a portion of such unrecognized losses (losses multiplied by the effective corporate tax rate) is recorded as income up to the amount of the future income tax liability that was previously recognized on the renounced expenditures.

l) Recent accounting pronouncements

CICA Section 3064 *Goodwill and Intangible Assets* replaces Section 3062 *Goodwill and Intangible Assets*, and Section 3450 *Research and Development Costs,* which also resulted in amendments to related guidance contained in AcG-11 *Enterprises in the Development Stage* and Section 1000 *Financial Statement Concepts.* These pronouncements and amendments affect the recognition and measurement of intangible assets that include deferred costs related to mineral property exploration. On January 1, 2009 the Company will adopt this standard, and management is currently assessing its impact on the Company's interim and annual financial statements for fiscal 2009.

In February 2008, the CICA Accounting Standards Board confirmed that public companies will be required to prepare interim and annual financial statements under International Financial Reporting Standards ("IFRS") for fiscal years beginning on or after January 1, 2011. Management has made a preliminary assessment of the significant differences between IFRS and Canadian GAAP and determined that the accounting for oil and gas property and equipment will likely have the most impact to the Company's reported financial position and results of operations. Development of the Company's formal plan to commence the transition to IFRS will be undertaken in the summer of 2009.

4. Accounting Changes

Effective January 1, 2008, the Company adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants ("CICA"). These accounting policy changes were adopted on a prospective basis with no restatement of prior period financial statements:

CICA Section 3862 *Financial Instruments Disclosures*, which, along with CICA Section 3863 *Financial Instrument Presentation* replaced 3861 of the CICA Handbook *Financial Instruments Disclosure and Presentation.* The new disclosure standards increase the emphasis on the risks associated with both recognized and unrecognized financial instruments and how these risks are managed. The new presentation standards did not have a significant impact on the Company's financial statements.

CICA Section 1535 *Capital Disclosures*. This section established standards for disclosing information about an entity's capital and how it is managed to enable users of financial statements to evaluate the entity's objectives, policies and procedures for managing capital.

CICA amended Section 1400 *General Standard of Financial Statement Presentation.* The revised section includes requirements to assess and disclose the Company's ability to continue as a going concern. The adoption of this new section did not have an impact on the Company's financial statements.

5. Oil and Gas Property and Equipment

	2008	2007
Oil and gas property and equipment, cost	$ 19,478,667	$ 18,417,734
Less: Accumulated amortization, depletion and impairment	(13,626,127)	(12,961,727)
	$ 5,852,540	$ 5,456,007

At December 31, 2008, oil and gas property and equipment includes the cost of unproven properties of approximately $947,823 (2007 - $1,108,931), which are currently not subject to depletion.

Effective October 1, 2008, the Company 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 Berkley will pay an aggregate $1,200,000 for an 18% interest in the well. This amount has been included in accounts payable and accrued liabilities at the end of the year. Subsequent to year end, Berkley determined that they were unable to raise the proceeds and the property interest was transferred back to the Seller (Note 15).

5. Oil and Gas Property and Equipment - *continued*

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

Year	Crude Oil Edmonton PAR CDN$/bbl	Natural Gas AECO CDN$/mcf
2009	65.40	7.00
2010	87.20	8.05
2011	96.50	8.20
2012	104.30	9.00
2013	112.05	9.75
2014	114.25	9.95
2015	116.55	10.15
2016	118.90	10.35
2017	121.25	10.55
2018	123.70	10.75

Benchmark prices increase at a rate of 2% per year for both oil and gas after 2018.

For the year ended December 31, 2008, no ceiling test write-down was required. The 2007 write-down of $4,083,000 is included in accumulated amortization, depletion and impairment.

During the year ended December 31, 2008, four property areas produced more than 89% (2007 – 90%) of the total oil and gas revenue. There is no guarantee that this revenue will continue in future periods.

6. Other Property and Equipment

	Cost	Accumulated Amortization	Net 2008	Net 2007
Computer equipment	$ 28,760	$ (28,617)	$ 143	$ 1,356
Furniture, fixtures and equipment	8,521	(7,167)	1,354	1,692
	$ 37,281	$ (35,784)	$ 1,497	$ 3,048

7. Bank Loans

The Company has a $50,000 (2007 - $50,000) revolving demand credit line with the CIBC that bears interest at prime plus 1% (2007 – prime plus 1%) per annum. As at December 31, 2008, there was a $nil (2007 – $nil) balance outstanding with regard to the credit line.

8. Asset Retirement Obligation

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

	2008	2007
Asset retirement obligations, beginning of year	$ 140,150	$ 135,675
Accretion	5,941	3,968
Additions	-	507
Assignment of working interest	(62,017)	
Effect of change in estimate	114,582	-
Asset retirement obligations, end of year	$ 198,656	$ 140,150

8. Asset Retirement Obligation - *continued*

The Company estimates the total undiscounted amount of cash flows required to settle its asset retirement obligation is approximately $332,850 (2007 – $249,147) which will be incurred between 2009 and 2029. The majority of these obligations will be incurred between 2016 and 2018. The asset retirement obligation assumes a credit adjusted discount rate of 6% (2007 – 6%) and an inflation rate of 1.5% (2007 – 1.5%).

Effective October 1, 2008, the Company agreed to assign one-half of its current working interest in the Senex Lands to an Alberta-based oil & gas company in exchange for future capital expenditures.

9. Share Capital

a) Authorized:

Unlimited common shares, without par value

	December 31, 2008			December 31, 2007		
Issued and fully paid:	Number of Shares		Amount	Number of Shares		Amount
Balance, beginning of period	21,451,608	$	12,347,593	18,857,608	$	11,577,934
Issued in the year for cash:						
Pursuant to private placements:						
- flow-through for cash	-		-	2,154,000		1,400,100
- non-flow-through for cash	2, 244,444		404,000	440,000		264,000
Share issuance costs	-		(3,270)	-		(27,010)
Fair value of private placement Warrants	-		(64,512)	-		(4,400)
Future income taxes on renouncement of resource property expenditures	-		-	-		(870,259)
Future income taxes on share issue costs	-		-	-		7,228
Balance, end of period	23,696,052	$	12,683,811	21,451,608	$	12,347,593

In 2007, the Company issued 440,000 units at $0.60 per unit for total proceeds of $264,000 with each unit consisting of one common share of the Company and one half warrant exercisable to January 12, 2009 at $1.00 per warrant. Management determined that $0.01 of the $0.60 unit price was applicable to the half warrant, therefore $4,400 of total proceeds was been reflected in contributed surplus. Should these warrants be exercised, the applicable amount of contributed surplus will be transferred to share capital.

On July 18, 2008, the Company closed a non-brokered private placement of 2,244,444 units at a price of $0.18 per unit for gross proceeds of $404,000. Share issuance costs of $3,270 were incurred in relation to the private placement. An additional 555,000 units were issued to a Director of the Company but these units were subsequently terminated during the year. 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 $0.30 for one year. The fair value of the warrants was estimated to be $64,512. This fair value was estimated at the date of granting using the Black-Scholes option pricing model with the following assumptions: risk free interest rate of 3.10%, dividend yield of 0%, volatility factor of 84%, and an average life of one year. Should these warrants be exercised the applicable amount of contributed surplus will be transferred to share capital.

9. Share Capital - *Continued*

b) Warrants

	2008		2007	
	Number of Shares Subject to Warrants	Exercise price range	Number of Shares Subject to Warrants	Exercise price range
Outstanding, beginning of year	220,000	$1.00	1,013,800	$1.20/$1.50
Issued	1,899,999	$0.30	220,000	$1.00
Expired	-	-	(1,013,800)	$1.25/$1.50
Outstanding, end of year	2,119,999	$0.30/$1.00	220,000	$1.20/$1.50

During the year, an additional 344,445 warrants were issued to Directors of the Company but these warrants were subsequently cancelled during the year. At December 31, the following share purchase warrants were outstanding:

Exercise price Range	Expiry date	2008 Number of warrants	2007 Number of warrants
$1.00	January 12, 2009	220,000	220,000
$0.30	July 16, 2009	1,899,999	-
		2,119,999	220,000

c) Stock options

At the Company's AGM, the shareholders adopted a 2008 Stock Option Plan (the "Plan") which provides for the granting of options to acquire up to 4,290,321 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 the Company. All options are to be granted at fair value, and the term of the options granted is not to exceed five years. Options to acquire a total of 1,815,000 shares have been granted and are outstanding at December 31, 2008 under the Plan. Options granted under the plan vest as follows:

i) 20% during the first six months after the date of the grant;
ii) 20% at the end of nine months after the date of grant;
iii) 20% at the end of the twelve months after the date of grant;
iv) 20% at the end of the fifteen months after the date of grant;
v) 20% at the end of the eighteen months after the date of grant.

	December 31, 2008		December 31, 2007	
	Number of shares subject to option	Weighted average exercise price per share	Number of shares subject to option	Weighted average exercise price per share
Balance outstanding, beginning of year	2,550,500	$0.66	2,214,000	$0.68
Activity in the year:				
Granted	-	-	350,000	$0.55
Expired	(727,500)	$0.53	-	-
Cancelled	(8,000)	$0.76	(13,500)	$0.70
Balance outstanding, end of year	1,815,000	$0.71	2,550,500	$0.66
Exercisable, end of year	1,745,000	$0.72	2,150,539	$0.68

9. Share Capital - *Continued*

c) Stock options - *Continued*

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, 2008	December 31, 2007
$0.52	September 19, 2008	-	580,500
$0.57	September 19, 2008	-	150,000
$0.81	October 19, 2009	200,000	200,000
$0.77	October 29, 2009	37,500	37,500
$0.90	December 23, 2010	637,500	637,500
$0.56	September 21, 2011	590,000	595,000
$0.55	July 4, 2012	350,000	350,000
		1,815,000	2,550,500

The fair value of the stock options granted were $nil (2007 - $81,180) determined on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	2008	2007
Risk free interest rate	-	4.50%
Expected life	-	3 years
Volatility factor	-	57%
Dividend yield	-	0%

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options.

10. Contributed Surplus

	2008	2007
Balance, beginning of year	$ 1,030,532	$ 804,412
Stock-based compensation on vested options	81,501	219,451
Stock-based compensation on vested options for consulting services	7,009	2,269
Value of warrants	64,512	4,400
Balance, end of year	$ 1,183,554	$ 1,030,532

a) During 2007, the Company issued 440,000 units at $0.60 per unit for total proceeds of $264,000 with each unit consisting of one common share of the Company and one half warrant exercisable to January 12, 2009 at $1.00 per warrant. Management determined that $0.01 of the $0.60 unit price was applicable to the half warrant, therefore $4,400 of total proceeds was been reflected in contributed surplus. Should these warrants be exercised the applicable amount of contributed surplus will be transferred to share capital.

11. Income Taxes

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

	2008	2007
Net loss for the year before taxes	$ (679,072)	$ (4,523,200)
Combined federal and provincial income tax rate	29.50%	34.12%
Computed income tax expense (reduction)	(200,326)	(1,543,316)
Increase (decrease) resulting from		
Stock-based compensation	24,043	74,877
Deferred financing fees	-	45,805
Interest and penalties	12,154	-
Meals and entertainment	1,012	1,533
Tax adjustment from rate change and other	16,093	574,517
Non-taxable portion of capital gain	-	(355,766)
Change in valuation allowance	147,024	339,319
Recovery of income taxes	$ -	$ (863,031)

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

	2008	2007
Future income tax assets		
Non-capital losses	$ 322,967	$ 315,300
Share issuance costs	43,828	83,464
Property and equipment	769,042	605,587
Asset Retirement Obligation	53,167	37,508
Cumulative eligible capital	1,619	1,740
Future income tax liabilities		
Allowance	(1,190,623)	(1,043,599)
Future income tax asset (liability)	$ -	$ -

Future income tax assets are recorded when it is more likely then 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.

11. Income Taxes - *Continued*

c) The Company has non-capital losses which may be applied to reduce future years' taxable income. At December 31, 2008, these losses expire as follows:

2009	$	58,684
2010		52,613
2014		265,611
2015		208,700
2026		581,795
2028		33,275
	$	1,200,678

d) Canadian development and exploration expenditures

As at December 31, 2008, the Company had $8,727,549 (2007 - $8,580,628) of unused Canadian exploration and development expenses available to offset future taxable income of the Company. The tax benefit of these expenses carry forward indefinitely.

e) Flow-through shares

In 2007, the Company issued flow-through share in the amount of $1,400,100 excluding share issuance costs, to finance eligible Canadian exploration expenditures. The resource expenditure deductions for income tax purposes related to exploration activities are renounced to investors in accordance with income tax legislation, and as a result tax deductibility of these costs are not available to the Company. At year end, the eligible Canadian exploration expenditures have been made and renounced to the investors.

12. Related Party Transactions

a) There is no amount due from related parties.

b) Due to related parties consists of $12,500 (2007 - $7,000) due to Directors of the Company for Directors fees; and $7,009 (2007 - $7,261) to a private company owned by public companies having common Directors that provide administrative services, office supplies and accounting services.

c) Management and consulting fees totalling $192,000 were paid to Directors and their private companies in 2008 (2007 - $296,999).

d) Current and/or former Directors and Officers subscribed for 870,001 shares of the Company for total proceeds of $156,600 (2007 – nil and $nil).

e) Consulting fees totalling $Nil were paid to a former Director and his spouse in 2008 (2007 - $16,000).

f) Administrative services, office supplies and accounting charges totalling $90,222 were paid to Oniva International Services Corporation (“Oniva”), a private company owned by public companies having common Directors (2007 - $110,161).

g) The Company takes part in a cost sharing arrangement to reimburse Oniva for a variable percentage of its overhead expenses, to reimburse 100% of its out-of-pocket expenses incurred on behalf of the Company, 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.

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

13. Risk Management

The carrying values of financial assets and liabilities approximate their fair value due to their short periods to maturity. The Company is exposed to interest risk on its line of credit facility with the Canadian Imperial Bank of Commerce. The Company is not exposed to significant credit or currency risk on its financial instruments.

The Company manages its exposure to financial risks by operating in a manner that minimizes its exposure to the extent practical. The main financial risks affecting the Company 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. The Company considers this risk to be limited.

(b) Liquidity Risk

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

The Company considers this risk to be limited.

(c) Commodity Price Risk

Commodity price risk is the risk that the cash flows and operations of the Company will fluctuate as a result of changes in commodity prices. Significant changes in commodity prices can also impact the Company'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.

The Company's financial performance is closely linked to crude oil and natural gas prices. While the Company 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.

14. Capital Disclosures

The Company defines its capital as follows:

- Cash
- Unused line of credit

The amounts included in the Company's capital are as follows:

	As at December 31,	
	2008	**2007**
Capital:		
Cash	86,453	47,057
Unused line of credit (Note 7)	50,000	50,000

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

15. Supplemental Cash Flow Information

	2008	**2007**
Change in non-cash working capital items:		
Accounts receivable	71,301	360,064
Taxes recoverable	(2,051)	3,977
Prepaid expenses	(11,475)	9,813
Accounts payable and accrued liabilities	502,581	(33,208)
Due to related parties	5,348	(54,172)
Net change in non-cash working capital items	565,704	286,474
Amounts relating to operating activities	(601,142)	(10,437)
Amounts relating to investing activities	1,166,846	296,911
Interest paid	-	249,910

16. Subsequent Events

On March 6, 2009, the Company 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. On March 1, 2009, the Company sold 25% of its existing 50% interest in a project to the Seller to reduce the amount owed to $850,000. On March 16, 2009, the Company 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.

17. Comparative Numbers

Certain of the comparative numbers for the year ended December 31, 2007 have been reclassified to be consistent with the presentation in the current year.