

The following discussion and analysis of the operations, results and financial position of Berkley Resources Inc. (the "Company" or "Berkley") for the year ended December 31, 2008 should be read in conjunction with the December 31, 2008 audited year-end financial statements and the notes thereto.

This Management Discussion and Analysis ("MD&A") is dated April 15, 2009 and discloses specified information up to that date. Berkley is classified as a "venture issuer" for the purposes of National Instrument 51-102. The Company's financial statements are prepared in accordance with generally accepted accounting principles in Canada. Unless otherwise cited, references to dollar amounts are in Canadian dollars.

***We recommend that readers consult the "Cautionary Statement" on the last page of this report.***

### **Description of Business**

The Company's principal business activities are the acquisition, development, exploration and production of petroleum and natural gas reserves in Alberta and Saskatchewan. The Company is a reporting issuer in British Columbia and Alberta and trades on the TSX Venture Exchange under the symbol BKS and on the Frankfurt Stock Exchange under the symbol W80 and WKN 871666.

### **Overall Performance and Outlook**

Since the year ended December 31, 2007, the Company became a pure oil and gas company after the sale of the Company's real estate assets in Vancouver, B.C. An overview analysis of the oil and gas segment is as follows:

#### **Oil and Gas Industry Overview**

The oil and gas industry followed the downward slide experienced by the financial sector throughout the third and fourth quarters of 2008. After seeing a price of US \$145.29 per barrel for oil on July 3, 2008, the industry is trying to manage its way through the collapse to US \$44.60/barrel average for December 2008. Natural gas prices were less dramatic but also significant, dropping from a July 1, 2008 price of C\$11.70/per thousand cubic feet (MCF) to C\$6.36/mcf average for December 2008. Operating costs have not tracked price declines, however, this is rapidly changing as more and more oilfield equipment stands idle. The entire circumstance is further aggravated in Alberta by an intransigent government which continues on its expressed intent to implement a punishing royalty regime effective January 1, 2009.

#### **Company Activity**

During the year ended December 31, 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, with each unit consisting of one common share and one non-transferable share purchase warrant. Each warrant will entitle the shareholder to purchase one additional share at a price of \$0.30 until July 16, 2009. An additional 555,556 units were issued to a Director of the Company but these units were subsequently terminated during the year.

The Company continued to pursue quality projects with experienced partners in high opportunity areas. The Company put its primary efforts into fully developing its existing properties and maintaining its representation in new projects now underway such as Crossfield, Alberta.

**Senex Area, Alberta (Townships. 92/93, Ranges 6/7 W5M):**

Berkley (10%) and its operating partner, Galleon Energy Inc. (90%) have consolidated their land holdings in this area at approximately 45 sections. This land base will provide the Company with a large block on which to develop all three formations. The formations are: Keg River (oil), Slave Point (oil) and Blue Sky (gas). The Company and its partner own a large 3D seismic program over the joint lands which is essential to determine new drilling opportunities.

**Crossfield West Area, Alberta (Township 28, Range 1 W5M):**

The licensing process of this sour-gas prospect is progressing. The Company and its partners have negotiated extensions to certain of its freehold leases which will maintain our existing drilling lease block of six sections. The Company and its partners have sufficient leasehold interests to proceed with their own drilling plans; however, negotiations are being pursued with other parties to extend the acreage position. The Company expects to have its licensing hearing before the end of September 2009 which would permit drilling to take place before the end of 2009.

**Summary**

The Company made a major commitment to the Senex Area over the past five years. Large reserves of oil have been identified in two Devonian formations and a significant natural gas reserve in shallow lower Cretaceous sand. The Company has participated in drilling 20 wells in the Senex area. The high price received for this high-quality oil greatly improves the economics of this project in which Berkley holds a 10% interest after reducing its interest from 20% in return for its partner assuming the next \$1,700,000 in capital expenditures for the account of Berkley. Good progress is being made in the licensing process at Crossfield. It continues as an exciting natural gas prospect. The Company now expects to drill this prospect by the end of 2009.

**Results of Operations**
**Selected Annual Information**

The following financial data is derived from the Company's financial statements for the three most recently completed financial years:

	December 31, 2008	December 31, 2007	December 31, 2006
	\$	\$	\$
Total oil and gas revenues	1,560,485	1,715,924	1,568,681
Loss for the year before discontinued operations	(679,072)	(5,380,576)	(3,068,631)
Discontinued operations	-	1,854,654	(168,128)
Loss per share before discontinued operations	(0.03)	(0.27)	(0.21)
Loss per share after discontinued operations	(0.03)	(0.18)	(0.22)
Total assets	6,148,375	5,771,772	11,896,679
Total liabilities	1,703,232	1,136,797	4,597,314
Working capital (Deficit)	(1,210,238)	(683,930)	(3,189,632)

**Oil and Gas**

Oil and gas revenue was \$1,560,485 for the year ended December 31, 2008 compared to \$1,715,924 for 2007, a decrease of \$155,439. Production expenses for the year were lower at \$1,170,145 compared to

\$6,379,155 in 2007. This decrease of \$5,209,010 is due to a write-down of its oil and gas properties in fiscal year 2007 of \$4,083,000, as well as a decrease of \$234,019 in operating costs, \$134,264 in interest on loans, and \$757,727 in amortization. Interest charges were \$nil in the current period as a result of the Company paying off its long-term debt in the prior year. There was a net oil and gas income of \$92,141 for the year ended December 31, 2008 compared to a net oil and gas loss of \$4,946,721 reported in 2007, a difference of \$5,038,862.

#### **Head Office - General and Administrative Expenses**

General and administrative expenses totaled \$685,854 for the year ended December 31, 2008 compared with \$1,253,810 in 2007. The decrease of \$567,956 is the result of cost decreases in all categories. The decreases were \$75,506 in administrative, office services and premises, \$137,950 in stock-based compensation, \$104,999 in management fees, \$153,859 in consulting fees, \$57,625 in professional fees, \$2,142 in filing and transfer agent fees, and \$35,372 in shareholder information.

There are several reasons for the various cost decreases. Consulting fees are down because of two five-year consulting agreements that had expired in 2007. Stock-based compensation expense is lower as there were no new stock options granted during the year ended December 31, 2008 (2007 - \$219,451). In regards to administrative, office services and premises expenses, the Company is now paying a smaller percentage of the head office cost sharing arrangement with Oniva.

#### **Net Loss for the Period**

Net Loss for the period ended December 31, 2008 was \$679,072 compared with a loss of \$3,525,922 for the same period of 2007, a difference of \$2,846,850. The decrease in net loss is mainly attributable to the Company having taken no write-downs on its oil and gas properties in the year ended December 31, 2008. There were no significant other income or expense items that had an impact on the loss for the period. Overall, the Company has seen interest charges drastically reduced along with lower general and administrative expenses.

#### ***Three months' ended December 31, 2008 ("Q4-2008") compared with the three months ended December 31, 2007 ("Q4-2007").***

#### **Oil and Gas**

Oil and gas revenue was \$132,902 for the Q4-2008 compared to \$472,254 for Q4-2007, a decrease of 339,352. The decrease in revenue is a result of the Company having decreased revenues from its properties due to decreased production volumes and lower oil prices. The production expenses for Q4-2008 were significantly lower at \$404,258 compared to \$4,954,896 in Q4-2007. There were decreases of \$63,211 in operating costs, \$404,427 in amortization, depletion and accretion and \$4,083,000 in write-downs of oil and gas properties. All production expenses have decreased in the current quarter.

#### **Head Office - General and Administrative Expenses**

General and administrative expenses totaled \$215,678 for Q4-2008 compared with \$326,030 in Q4-2007. The decrease of \$110,352 is the result of cost decreases in all categories except for administrative, office services and premises. The decreases included \$32,491 in stock-based compensation, \$15,098 in management fees, \$37,575 in consulting fees, \$21,749 in professional fees, \$6,844 in transfer agent fees, \$1221 in shareholder information and \$419 in amortization. Offsetting this slightly is a nominal increase recorded in administrative, office services and premises.

There are several reasons for the various cost decreases. Consulting fees are down because of two five-year consulting agreements that had expired in the year ended December 31, 2007. Management fees are lower as a result of one less officer being paid during Q4-2008. Stock-based compensation expense is lower as there were no new stock options granted during Q4-2008. In regards to administrative, office services and premises expenses, the Company experienced a slight periodic increase due to increased corporate activity.

### **Net loss for the Period**

There was a net loss of \$529,788 in Q4-2008 compared with a net loss of \$3,786,130 in Q4-2007. The primary difference is related to amounts recorded for write-downs to oil and gas properties in Q4-2007 and no such amounts recorded in Q4-2008. Overall, the Company has seen lower general and administrative expenses.

### **Summary of Quarterly Results**

Period Ended	2008	2008	2008	2008	2007	2007	2007	2007
	Dec. 31	Sept. 30	Jun 30	Mar 31	Dec 31	Sep 30	June 30	Mar 31
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	\$	\$	\$	\$	\$	\$	\$	\$
Net oil and gas income (loss)	(271,356)	135,240	204,728	23,529	(4,482,642)	(281,167)	(142,153)	(40,759)
Discontinued operations	-	-	-	-	(17,913)	1,941,312	(42,015)	(26,730)
Income (loss) for the period	(529,788)	(41,495)	29,607	(137,396)	(3,786,130)	1,228,718	(590,577)	(377,933)
Basic and diluted income (loss) per share after discontinued operations	(0.01)	(0.00)	0.01	(0.01)	(0.07)	0.06	(0.03)	(0.02)

### **Liquidity**

At December 31, 2008 the Company had current assets of \$294,338, of which \$86,453 (2007 - \$47,057) was comprised of cash. Current liabilities totaled \$1,504,576, and consisted mainly of trade payables relating to asset additions and property operating costs.

Total working capital deficiency as at December 31, 2008 was \$1,210,238 (2007 – 683,930). During 2008, the Company raised \$404,000 by way of non-brokered private placement. The Company also continues to explore and identify other financial opportunities in order to address its ongoing financial requirements.

### **Capital Resources**

The Company plans to continue its participation in the two projects discussed above. The Company expects to finance expenditures on these projects by way of private placements, existing production revenue and a farm out of a portion of its property interests (if required). In addition, the Company may make further oil and gas expenditures on new properties as finances permit.

**Off-Balance Sheet Arrangements**

The Company has no off-balance sheet arrangements.

**Related Party Transactions**

Amounts owing to related parties consists of \$12,500 (December 31, 2007 - \$7,000) due to directors of the Company for directors fees, management fees and expense reimbursements and \$7,109 (December 31, 2007 - \$7,261) to Oniva International Services Corp. ("Oniva"), a private company owned by public companies having common directors that provides administrative services, office supplies and accounting services.

Management and consulting fees totaling \$192,000 were paid or accrued to directors and their private companies during the year (2007 - \$296,999).

Administrative services, office supplies and accounting charges totaling \$90,222 were paid to Oniva (2007 - \$110,161). 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.

**Disclosure of Management Compensation**

During the year, \$72,000 (2007: \$104,999) was paid to the current President and C.E.O. for services as director and officer of the Company, \$30,000 (2007: \$102,000) was paid to the former C.E.O. for services as director and officer of the Company, \$30,000 (2007: \$42,500) was paid to the former V.P. Finance for services as director and officer of the Company, \$60,000 (2007: \$60,000) was paid to the V.P. Operations for services as director and officer of the Company and \$4,000 (2007: \$11,692) was paid to the Corporate Secretary for services as an officer of the Company.

**Changes in Accounting Policies**

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 retrospective basis with no restatement of prior period financial statements:

- i) CICA Section 1400 *General Standards of Financial Statement Presentation* provides revised guidance on management's responsibility to assess and disclose the Company's ability to continue as a going concern;
- ii) CICA Section 1535 *Capital Disclosures* establishes standards for the disclosure of the Company's objectives, policies and processes for managing capital, capital management strategies, as well as quantitative information about capital;
- iii) CICA Section 3031 *Inventories* contains expanded guidance related to cost measurement and disclosure requirements. There was no significant impact on the Company's interim and annual financial statements for fiscal 2008 as a result of this standard;
- iv) 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;

- v) CICA Section 3862 *Financial Instruments - Disclosures* and Section 3863 *Financial Instruments - Presentation* replaces Section 3861 *Financial Instruments - Disclosure and Presentation*. These new sections revise and enhance current disclosure requirements for financial instruments, and place an increased emphasis on disclosure of risk exposure and risk assessments; and
- vi) 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.

### Outstanding Share Data

The Company's authorized share capital consists of unlimited common shares without par value.

As at December 31, 2008 and April 15, 2009 the Company had 23,696,052 issued and outstanding common shares.

The following is a summary of stock options outstanding as at December 31, 2008 and April 15, 2009:

Expiry Date	Exercise Price Per Share	Number of Shares Remaining Subject to Options (December 31, 2008)	Number of Shares Remaining Subject to Options (April 15, 2009)
October 19, 2009	\$0.81	200,000	200,000
October 29, 2009	\$0.77	37,500	37,500
December 23, 2010	\$0.90	637,500	637,500
September 21, 2011	\$0.56	590,000	590,000
July 4, 2012	\$0.55	350,000	350,000
		<b>1,815,000</b>	<b>1,815,000</b>

The following is a summary of share purchase warrants outstanding as at December 31, 2008 and April 15, 2009:

Expiry Date	Exercise Price Per Share	Number of Shares Remaining Subject to Options (September 30, 2008)	Number of Shares Remaining Subject to Options (April 15, 2009)
January 12, 2009	\$1.00	220,000	-
July 16, 2009	\$0.30	1,899,999	1,899,999
		<b>2,119,999</b>	<b>1,899,999</b>

**Disclosure Controls and Procedures**

The Chief Executive Officer and the Chief Financial Officer of the Company are responsible for evaluating the effectiveness of the Company's disclosure controls and procedures and have concluded, based on our evaluation, that they are effective as at December 31, 2008 to ensure that information required to be disclosed in reports filed or submitted under Canadian securities legislation is recorded, processed, summarized and reported within the time period specified in those rules and regulations.

**Internal Controls over Financial Reporting**

The Chief Executive Officer and the Chief Financial Officer of the Company are responsible for designing internal controls over financial reporting, or causing them to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. The Company assessed the design of the internal controls over financial reporting as at December 31, 2008 and concluded that there are material weaknesses in internal controls over financial reporting, which are as follows:

- a) Due to the limited number of staff resources, the Company believes there are instances where a lack of segregation of duties exist to provide effective controls; and
- b) Due to the limited number of staff resources, the Company may not have the necessary in-house knowledge to address complex accounting and tax issues that may arise.

The weaknesses and their related risks are not uncommon in a company the size of the Company because of limitations in size and number of staff. The Company believes it has taken steps to mitigate these risks by hiring additional personnel, consulting outside advisors and involving the Audit Committee and Board of Directors in reviews and consultations where necessary. However, these weaknesses in internal controls over financial reporting could result in a more than remote likelihood that a material misstatement would not be prevented or detected. The Company believes that it must take additional steps to further mitigate these risks by consulting outside advisors on a more regular and timely basis.

There have been no changes in the Company's internal controls over financial reporting that occurred during the year ended December 31, 2008 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

**Additional Information**

Additional information relating to the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com).

**Cautionary Statement**

This MD&A is based on a review of the Company's operations, financial position and plans for the future based on facts and circumstances as of April 15, 2008. Except for historical information or statements of fact relating to the Company, this document contains "forward-looking statements" within the meaning of applicable Canadian securities regulations. There can be no assurance that such statements will prove to be accurate, and future events and actual results could differ materially from those anticipated in such statements. Important factors that could cause actual results to differ materially from our expectations are disclosed in the Company's documents filed from time to time via SEDAR with the Canadian regulatory agencies to whose policies we are bound. Forward-looking statements are based on the estimates and opinions of management on the date the statements are made, and we do not undertake any obligation to update forward-looking statements should conditions or our estimates or opinions change. These statements involve known and unknown risks, uncertainties, and other factor that may cause the Company's actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievement expressed or implied by these forward-looking statements.