BERKLEY RESOURCES INC.

Financial Statements

DECEMBER 31, 2007 and 2006

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MANAGEMENT’S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements are the responsibility of, and have been prepared by, the management of Berkley Resources Inc. in accordance with Canadian generally accepted accounting principle in Canada with a reconciliation to generally accepted accounting principles in the United Sates. 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

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. Where appropriate, these financial statements reflect estimates based on judgments of management.

Meyers Norris Penny LLP, the independent auditors appointed by Berkley Resources Inc.’s shareholders, 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”*
Matthew Wayrynen Executive Chairman and Chief Executive Officer	Lindsay Gorrill President and Chief Operating Officer

April 18, 2008

To the shareholders of Berkley Resources Inc.:

We have audited the balance sheets of Berkley Resources Inc. as at December 31, 2007 and 2006 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 and the standards of the Public Company Accounting Oversight Board (United States). These standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. 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, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

The financial statements as at and for the year ended December 31, 2005, prior to the adjustment for certain error corrections as described in Note 17, were audited by the other auditors, who expressed an opinion without reservation on these statements in their report dated April 10, 2006. We have audited the adjustments to the 2005 financial statements and in our opinion, such adjustments, in all material respects, are appropriate and have been properly applied.

Meyers Norris Penny LLP

Calgary, Canada
April 18, 2008

MEYERS NORRIS PENNY LLP
Independent Registered Chartered Accountants

Comments by Independent Registered Chartered Accountants on Canada - United States of America Reporting Differences

The standards of the Public Company Accounting Oversight Board (United States) require the addition of explanatory paragraphs (following the opinion paragraph) when the financial statements are affected by conditions and events that cast substantial doubt on the Company's ability to continue as a going concern, such as those described in Note 1 to the financial statements. Our report to the shareholders dated April 18, 2008 is expressed in accordance with Canadian reporting standards which do not require a reference to such conditions and events in the report of the independent registered chartered accountants when these are properly accounted for and adequately disclosed in the financial statements.

Meyers Norris Penny LLP

Calgary, Canada
April 18, 2008

MEYERS NORRIS PENNY LLP
Independent Registered Chartered Accountants

MNP

BERKLEY RESOURCES INC.
BALANCE SHEETS
December 31, 2007, and 2006

As at		**2007**		**2006**
ASSETS				
Current Assets				
Cash	$	47,057	$	498,246
Accounts receivable		247,372		607,436
Taxes recoverable		12,168		16,145
Prepaid expenses		6,120		15,933
Deferred financing fees		-		134,247
		312,717		1,272,007
Oil and gas properties and equipment (Note 5)		5,456,007		8,581,024
Other property and equipment (Note 6)		3,048		4,724
Assets of discontinued operations (Note 2)		-		2,038,924
		5,459,055		10,624,672
	$	5,771,772	$	11,896,679
LIABILITIES				
Current Liabilities				
Accounts payable and accrued liabilities	$	982,386	$	1,015,594
Due to related parties (Note 12b)		14,261		68,433
Bank loans and liabilities of discontinued operations (Note 2 and 7)		-		3,377,612
		996,647		4,461,639
Asset Retirement Obligation (Note 8)		140,150		135,675
		1,136,797		4,597,314
Going concern (Note 1)				
Commitment (Note 14)				
Correction of error (Note 17)				
Subsequent event (Note 18)				
SHAREHOLDERS' EQUITY				
Share Capital (Note 9)		12,347,593		11,577,934
Contributed Surplus (Note 10)		1,030,532		804,412
Deficit		(8,743,150)		(5,082,981)
		4,634,975		7,299,365
	$	5,771,772	$	11,896,679

Approved by the Directors:

“Matt Wayrynen” Director *“Lindsay Gorrill”* 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

	2007	2006	2005 (Restated)
OIL AND GAS REVENUE	$ 1,715,924	$ 1,568,681	$ 1,408,858
Oil and gas production expenses			
Operating costs	1,017,313	828,575	608,045
Interest on loans	134,264	59,652	-
Amortization, depletion and accretion	1,428,068	1,162,790	667,794
Write-down of oil and gas properties	4,083,000	2,385,000	-
	6,662,645	4,436,017	1,275,839
NET OIL AND GAS INCOME (LOSS)	(4,946,721)	(2,867,336)	133,019
GENERAL AND ADMINISTRATIVE EXPENSES			
Administrative, office services and premises	327,956	312,517	244,233
Stock-based compensation	219,451	177,596	173,538
Management fees	296,999	237,828	201,393
Consulting fees	173,140	242,245	209,174
Professional fees	168,855	172,261	163,544
Finance fees on debt	-	61,753	95,427
Filing and transfer agent fees	21,131	25,731	17,130
Shareholder information	44,224	24,907	69,717
Amortization	2,054	2,158	1,462
	(1,253,810)	(1,256,996)	(1,175,618)
OTHER INCOME (EXPENSES)			
Interest expense	(50,593)	(848)	(10,487)
Interest and other income	7,517	24,450	2,034
	(1,296,886)	(1,233,394)	(1,184,071)
LOSS BEFORE INCOME TAXES AND DISCONTINUED OPERATIONS	(6,243,607)	(4,100,730)	(1,051,052)
Recovery of future income taxes (Note 11a)	863,031	1,032,099	583,706
LOSS BEFORE DISCONTINUED OPERATIONS	(5,380,576)	(3,068,631)	(467,346)
Discontinued operations (Note 2)	1,854,654	(168,128)	(55,112)
LOSS AND COMPREHENSIVE LOSS FOR THE YEAR	$ (3,525,922)	$ (3,236,759)	$ (522,458)
BASIC AND DILUTED LOSS PER SHARE BEFORE DISCONTINUED OPERATIONS	$ (0.27)	$ (0.21)	$ (0.05)
BASIC AND DILUTED LOSS PER SHARE AFTER DISCONTINUED OPERATIONS	$ (0.18)	$ (0.22)	$ (0.05)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	20,063,734	14,646,442	9,849,082

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

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

		2007		2006		2005 (Restated)
DEFICIT, beginning of year	$	(5,082,981)	$	(1,846,222)	$	(1,323,764)
Change in accounting policy (note 4)		(134,247)		-		-
Loss for the year		(3,525,922)		(3,236,759)		(522,458)
DEFICIT, end of year	$	(8,743,150)	$	(5,082,981)	$	(1,846,222)

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

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

		2007		2006		2005 (Restated)
CASH PROVIDED BY (USED IN) FROM CONTINUING OPERATIONS						
OPERATING ACTIVITIES						
Loss for the period from continuing operations	$	(5,380,576)	$	(3,068,631)	$	(467,346)
Items not requiring cash in the year						
Amortization, depletion and accretion		1,430,122		1,164,948		669,256
Finance fees on debt		-		61,753		-
Fair value of options issued for services		2,269		-		-
Write-down of oil and gas properties		4,083,000		2,385,000		-
Recovery of future income taxes		(863,031)		(1,032,099)		(583,706)
Stock-based compensation		219,451		177,596		173,538
		(508,765)		(311,433)		(208,258)
Net change in non-cash working capital balances:						
Accounts receivable		360,064		(328,580)		(133,434)
Taxes recoverable		3,977		6,180		8,754
Prepaid expenses		9,813		85,756		(9,189)
Due from related party		-		3,454		18,606
Prepaid oil and gas costs		-		295,350		81,343
Accounts payable and accrued liabilities		(33,208)		662,231		1,833
Due to related parties		(54,172)		(56,484)		124,917
		(222,291)		356,474		(115,428)
INVESTING ACTIVITIES						
Proceeds on disposal of oil and gas property		-		-		112,500
Oil and gas properties and equipment, net		(2,381,576)		(6,739,047)		(3,859,162)
Other property and equipment		(378)		(433)		(5,548)
		(2,381,954)		(6,739,480)		(3,752,210)
FINANCING ACTIVITIES						
Issuance of common shares (net of issue costs)		1,637,090		3,689,142		3,615,396
Decrease in cash from continuing operations		(967,155)		(2,693,864)		(252,242)
Increase in cash from discontinued operations (Note 2)		515,966		1,297,429		1,434,245
Cash, beginning of year		498,246		1,894,681		712,678
Cash, end of year	$	47,057	$	498,246	$	1,894,681

SUPPLEMENTAL STATEMENTS OF CASH FLOWS DISCLOSURE						
Interest paid on bank loans	$	249,910	$	273,100	$	99,532

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 owns in Vancouver, Canada. The commercial rental operations have been 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 and as at December 31, 2007 the Company does not have sufficient financial resources to meet its flow through expenditure requirements in 2008. As at December 31, 2007, the Company had a working capital deficit of $683,930 (2006 – $3,189,632).

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 rental property asset and liability amounts are now disclosed as *Assets of discontinued operations* and *Bank loans and liabilities of discontinued operations* respectively on the Balance Sheet and the operations segment disclosed as discontinued operations on the Statement of Operations. 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.

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

Assets:

	December 31, 2007	**December 31, 2006**
Building, at cost	$ -	$ 447,652
Less: Accumulated amortization	-	(147,722)
	-	299,930
Land, at cost	-	1,738,994
	$ -	$ 2,038,924

2. Discontinued Operations - Continued

Liabilities:

	December 31, 2007	December 31, 2006
Canadian Imperial Bank of Commerce loan	$ -	$ 577,612
Quest Capital Corp. loan	-	2,800,000
	$ -	$ 3,377,612

Operating results:

	2007	2006	2005
Rental revenue	$ 165,490	$ 249,211	$ 238,466
Rental operations expenses			
Operating costs	144,558	193,800	180,779
Interest on bank loan	115,646	213,448	99,532
Amortization	-	10,091	13,267
	260,204	417,339	293,578
Net rental loss before other items	(94,714)	(168,128)	(55,112)
Gain on sales of assets	1,949,368	-	-
Net rental gain (loss)	$ 1,854,654	$ (168,128)	$ (55,112)

Cash flows:

	2007	2006	2005
Operating activities			
Gain (loss) for the year	$ 1,854,654	$ (168,128)	$ (55,112)
Items not requiring cash			
Amortization	-	10,091	13,267
Gain on disposal of building	(1,949,368)	-	-
	(94,714)	(158,037)	(41,845)
Investing activities			
Proceeds from sale of building, net	3,988,292	-	-
Financing activities			
Bank and other loans received	-	3,055,466	1,600,000
Bank and other loans repaid	(3,377,612)	(1,600,000)	(123,910)
	(3,377,612)	1,455,466	1,476,090
Net cash increase from discontinued operations	$ 515,966	$ 1,297,429	$ 1,434,245

3. Significant Accounting Policies

a) Basis of presentation

These financial statements are prepared in accordance with Canadian generally accepted accounting principles, which do not materially differ from accounting principles generally accepted in the United States, except as disclosed in Note 16.

Certain comparative balances have been reclassified to conform with current year financial statement presentation.

b) Foreign currency translation

The accounts of the Company are maintained in Canadian dollars. Monetary assets and liabilities are translated into Canadian dollars at the year end exchange rates. Non-monetary assets and liabilities are translated using historical rates of exchange. Revenues and expenses are translated at the rate of exchange in effect on the transaction date and exchange gains and losses on translation are included in operations.

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. The Company assesses third party purchaser creditworthiness, 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.

d) Oil and gas properties and equipment

Berkley follows the full cost method of accounting for oil and gas properties 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 is 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.

3. Significant Accounting Policies - *Continued*

d) Oil and gas properties and equipment - *Continued*

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. As at 31 December 2007 and 2006, the Company does not operate any of its oil and gas interests.

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 asset retirement accretion which is included in depletion, amortization 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) Rental property and other capital assets

Land and building are recorded at cost, net of accumulated amortization on the building. The cost of the building is amortized over its estimated useful life at the rate of 4% per annum by the declining balance method. No amortization was taken on the building in the current year, subsequent to these operations being discontinued.

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

Computer equipment	30%
Furniture, fixtures and equipment	20%

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 assumptions used in determining the fair value of non-cash stock-based compensation 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 plan**

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) **Loss per share**

Basic 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 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 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 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) Variable interest entities

A variable interest entity (VIE) is one in which either the equity investment at risk is insufficient to permit the VIE to finance its activities without additional subordinated financial support, or the holders of the equity at risk lack the characteristics of a controlling financial interest. The primary beneficiary is defined as the party that will absorb a majority of the VIE's expected losses, receive a majority of the VIE's expected residual returns, or both. The Company has reviewed the criteria for a primary beneficiary and has determined that it has not met that criteria and therefore has not consolidated the variable interest entities.

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, the renouncement documents are filed with the taxation authorities, 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.

m) Recent accounting pronouncements

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. On January 1, 2008 the Company will adopt this standard and management is currently assessing its impact on the Company's interim and annual financial statements for fiscal 2008.

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. On January 1, 2008 the Company will adopt this standard, and management is currently assessing its impact on the Company's interim and annual financial statements for fiscal 2008.

CICA Section 3031 *Inventories* contains expanded guidance related to cost measurement and disclosure requirements. On January 1, 2008 the Company will adopt this standard, and no significant impact is expected on the Company's interim and annual financial statements for fiscal 2008.

3. Significant Accounting Policies - *Continued*

m) Recent accounting pronouncements - *Continued*

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.

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. On January 1, 2008 the Company will adopt this standard and management is currently assessing its impact on the Company's interim and annual financial statements for fiscal 2008.

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 is currently assessing the impact of adopting IFRS and it has not yet determined its affect on the Company's financial statements.

4. Accounting Changes

Effective January 1, 2007, 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:

a) Section 1530 *Comprehensive Income*

Effective January 1, 2007 comprehensive loss is comprised of the sum of the net loss and other comprehensive income or loss which includes unrealized gains or losses from changes in the fair market value of available-for-sale investments, changes in the fair market value of derivative instruments designated as cash flow hedges and currency translation adjustments on self-sustaining foreign operations. The Company does not have any derivative instruments, self-sustaining foreign operations or available-for-sale investments and currently the Company's other comprehensive income (loss) is $nil and not shown on the balance sheet.

b) Section 3251 *Equity*

c) Section 3855 *Financial Instruments – Recognition and Measurement*

Section 3855 requires all financial assets and liabilities, including derivatives, to be carried at fair value on the Company's balance sheet with the exception of loans and receivables, investments that are intended to be held to maturity and non-trading financial liabilities which are carried at cost or amortized cost. Transaction costs attributable to financial instruments classified as other than held-for-trading can be included in the recognized amount of the related financial instrument and recognized over the life of the resulting financial instrument or recognized in net income immediately. Transaction costs attributable to financial instruments classified as held-for-trading must be recognized in net income immediately.

4. Accounting Changes *- Continued*

c) Section 3855 *Financial Instruments – Recognition and Measurement - Continued*

The Company has reviewed and classified its financial instruments as follows:

- Cash is classified as a financial asset held for trading and is measured at its fair value. Gains or losses related to periodic revaluation are recorded to net income or loss.
- Accounts receivable are classified as loans and receivables and are initially measured at their fair value. Subsequent periodic revaluations are recorded at their amortized cost using the effective interest rate method.
- Accounts payable, accrued liabilities and revolving credit facility are classified as other liabilities and are initially measured at fair value. Subsequent periodic revaluations are recorded at their amortized cost using the effective interest rate 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, 2007
Deficit - increase	134,247
Deferred financing fees -decrease	134,247

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

d) Section 3861 *Financial Instruments – Disclosure and Presentation*

e) Section 3865 *Hedges*

This new standard specifies the circumstances under which hedge accounting is permissible and how hedge accounting may be performed. On adoption of these standards, the Company did not have any agreements or contracts which are following hedge accounting.

f) Section 1506 *Accounting changes*

This new standard expands requirements relating to voluntary changes in accounting principles, and requires the Company to disclose new sources of GAAP that have been issued but are not yet effective. The Company has not made any voluntary changes in accounting principles affecting these financial statements.

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5. Oil and Gas Properties and Equipment

	2007	2006
Oil and gas properties and equipment, cost	$ 18,417,734	$ 16,035,651
Less: Accumulated amortization and depletion	(8,878,727)	(5,069,627)
Write-down of oil and gas properties	(4,083,000)	(2,385,000)
	$ 5,456,007	$ 8,581,024

Future development costs related to proven undeveloped reserves of $Nil (2006 – $Nil) have been included in the depletion base calculation at December 31, 2007.

At December 31, 2007, oil and gas properties and equipment includes the cost of unproven properties of approximately $1,108,931 (2006 - $3,832,346) which are currently not subject to depletion.

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

Year	Crude Oil Edmonton Par Price CDN$/bbl	Natural Gas AECO CDN$/mcf
2008	85.65	6.90
2009	84.75	7.75
2010	87.05	8.10
2011	87.25	8.50
2012	85.40	8.65
2013	84.60	9.10
2014	86.30	9.30
2015	88.05	9.50
2016	89.80	9.65
2017	91.60	9.85

Benchmark prices increase at a rate of 2% per year for both oil and gas after 2017.

For the year ended December 31, 2007, a ceiling test write-down of $4,083,000 (2006 – $2,385,000) was required.

During the year ended December 31, 2007, five property areas produced more than 90% (2006 – 95%) of the total oil and gas revenue. There is no guarantee that this revenue will continue in future periods. In addition, $Nil of 2007 revenue (2006 – $70,013) came from a well that was abandoned in fiscal 2006 and is unlikely to produce any future revenue.

6. Other Property and Equipment

	Cost	Accumulated Amortization	Net 2007	Net 2006
Computer equipment	$ 28,760	$ (27,404)	$ 1,356	$ 2,609
Furniture, fixtures and equipment	8,521	(6,830)	1,691	2,114
Truck	39,040	(39,039)	1	1
	$ 76,321	$ (73,273)	$ 3,048	$ 4,724

7. Bank Loans and Liabilities of Discontinued Operations

	2007	2006
Canadian Imperial Bank of Commerce	$ -	$ 577,612
Quest Capital Corp.	-	2,800,000
	$ -	$ 3,377,612

The bank loan payable to the Canadian Imperial Bank of Commerce ("CIBC") that was subject to interest at prime plus 1.00% per annum, due on demand, and secured by a first mortgage in the amount of $650,000 over the Company's rental property and an assignment of rents and insurance was paid out upon the completion of the sale of the discontinued operations on August 31, 2007.

The bank loan payable to Quest Capital Corp ("Quest") that was subject to interest at 12.00% per annum with monthly interest only payments of approximately $28,000 and secured by a promissory note, a second mortgage and assignment of rents over the Company's real estate, a first charge debenture over the oil and gas assets and a general security agreement was paid out upon the completion of the sale of the discontinued operations on August 31, 2007.

In addition, the Company has a $50,000 revolving demand credit line with the CIBC that bears interest at prime plus 1% per annum. As at December 31, 2007 and 2006, there was a 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:

		2007		2006
Opening balance	$	135,675	$	85,439
Accretion		3,968		2,790
Additions		507		47,446
	$	140,150	$	135,675

The Company estimates the total undiscounted amount of cash flows required to settle its asset retirement obligation is approximately $249,147 (2006 – $217,700) which will be incurred between 2008 and 2018. The asset retirement obligation calculation assumes a credit adjusted discount rate of 6% and an inflation rate of 1.5%.

9. Share Capital

a) Authorized:

Unlimited common shares, without par value

	2007			2006		
Issued and fully paid:	Number of Shares		Amount	Number of Shares		Amount
Balance, beginning of year	18,857,608	$	11,577,934	14,184,955	$	8,762,671
Issued in the year for cash:						
Pursuant to private placements:						
- flow-through for cash	2,154,000		1,400,100	3,613,015		3,251,713
- non-flow-through for cash *(Note 10i)*	440,000		264,000	755,600		680,040
- non-flow-through for services	-		-	301,538		196,000
Exercise of stock options	-		-	-		-
Exercise of warrants	-		-	2,500		3,750
Share issuance costs	-		(27,010)	-		(246,361)
Fair value of private placement Warrants (*Note 10i*)	-		(4,400)	-		(37,780)
Future income taxes on renouncement of resource property expenditures	-		(870,259)	-		(1,114,694)
Future income taxes on share issue costs	-		7,228	-		82,595
Balance, end of year	21,451,608	$	12,347,593	18,857,608	$	11,577,934

9. Share Capital - *Continued*

b) Warrants

	2007		2006	
	Number of Shares Subject to Warrants	Exercise price range	Number of Shares Subject to Warrants	Exercise price range
Outstanding, beginning of year	1,013,800	$1.20/$1.50	1,925,232	$1.10/$1.50
Issued	220,000	$1.00	377,800	$1.20/$1.50
Exercised	-	-	(2,500)	$1.50
Expired	(1,013,800)	$1.25/$1.50	(1,286,732)	$1.10/$1.50
Outstanding, end of year	220,000	$1.00	1,013,800	$1.20/$1.50

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

Exercise price Range	Expiry date	2007 Number of warrants	2006 Number of warrants
$1.25	December 28, 2007	-	636,000
$1.20/$1.50	April 30, 2007 / December 31, 2007	-	377,800
$1.00	January 12, 2009	220,000	-
		220,000	1,013,800

c) Stock options

The Company has adopted a 2007 Stock Option Plan ("the Plan") which provides for the granting of options to acquire up to 2,837,000 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 granted are to be within the allowable discount off market price and the term of the options granted is not to exceed five years. 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.

	2007		2006	
	Number of Shares Subject to Options	Weighted average exercise price per share	Number of Shares Subject to Options	Weighted average exercise price per share
Balance outstanding, beginning of year	2,214,000	$0.68	1,634,000	$0.72
Activity in the year				
Granted	350,000	$0.55	600,000	$0.56
Exercised	-	-	-	-
Cancelled	(13,500)	$0.70	(20,000)	$0.78
Balance outstanding, end of year	2,550,500	$0.66	2,214,000	$0.68
Exercisable, end of year	2,150,539	$0.68	1,428,333	$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	2007	2006
		Number of Shares Remaining Subject to Options at December 31	
$0.52	September 19, 2008	580,500	580,500
$0.57	September 19, 2008	150,000	150,000
$0.74	September 19, 2008	-	6,000
$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	640,000
$0.56	September 21, 2011	595,000	600,000
$0.55	July 4, 2012	350,000	-
		2,550,500	2,214,000

The fair value of the stock options granted were $81,180 (2006: $198,900) determined on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	2007	2006
Risk free interest rate	4.50%	3.91%
Expected life	3 years	3 years
Volatility factor	57%	55%
Dividend yield	0%	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

	2007	2006
Balance, beginning of year	$ 804,412	$ 589,036
Stock-based compensation on issue of options	219,451	177,596
Stock-based compensation on issue of options for consulting services	2,269	-
Value of warrants (i and ii)	4,400	37,780
Balance, end of year	$ 1,030,532	$ 804,412

i) During the year 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.

ii) During the year ended December 31, 2006 the Company issued 755,600 units at $0.90 per unit for total proceeds of $680,040 with each unit consisting of one common share of the Company and one half warrant exercisable to April 30, 2007 at $1.20 per warrant and exercisable to December 31, 2007 at $1.50. Management determined that $0.05 of the $0.90 unit price was applicable to the half warrant, therefore $37,780 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:

	2007	2006	2005 (Restated)
Net income (loss) for the year before taxes	$ (4,523,200)	$ (4,268,855)	$ (1,106,164)
Combined federal and provincial income tax rate	34.12%	34.12%	34.12%
Computed income tax expense (reduction)	(1,543,316)	(1,456,533)	(377,423)
Increase (decrease) resulting from:			
Non deductible Crown Royalties, net	-	22,290	33,956
Resource loss (allowance)	-	(12,658)	12,292
Stock-based compensation	74,877	60,596	59,211
Deferred financing fees	45,805	21,070	-
Meals and entertainment	1,533	1,323	1,857
Tax adjustment from rate change and other	574,517	(892)	250
Non-taxable portion of capital gain	(355,766)	-	-
Change in valuation allowance	339,319	332,705	(313,849)
Recovery of income taxes	$ (863,031)	$ (1,032,099)	$ (583,706)

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

	2007	2006
Future income tax assets		
Non-capital losses	$ 315,300	$ 401,972
Share issuance costs	83,464	148,615
Property and equipment	605,587	105,150
Asset retirement obligation	37,508	46,292
Cumulative eligible capital	1,740	2,386
Future income tax liabilities		
Oil and gas properties tax value in excess of book value	-	(135)
Allowance	(1,043,599)	(704,280)
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, 2007, these losses expire as follows:

2008	10,711
2009	58,684
2010	52,613
2014	265,611
2015	208,700
2026	581,795
	$ 1,178,114

d) Canadian development and exploration expenditures

As at December 31, 2007, the Company had $5,160,120 (2006 - $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 shares in the amount of $1,400,100 (2006 - $3,251,713), excluding share issue 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.

As at the respective year ends the subscription value of the flow-through shares of $1,400,100 (2006 – $3,251,713) had not yet been renounced to the shareholders, and $1,400,100 (2006 – $2,673,196) of eligible Canadian exploration expenditures had not yet been expended by the Company. The Company is committed to spend this amount on qualifying expenditures by December 31, 2008. Subsequent to the year-end, the Company renounced the $1,400,100 (2006 - $3,251,713) to the flow-through shareholders under the CRA look back rules.

12. Related Party Transactions

a) There is no amount due from related parties.

b) Due to related parties consists of $7,000 (2006 - $16,651) due to Directors of the Company for Directors' fees and expense reimbursements and $7,261 (2006 - $51,782) to a private company owned by public companies having common Directors that provides administrative services, office supplies and accounting services.

c) Management and consulting fees totalling $296,999 were paid to Directors and their private companies in 2007 (2006: $237,828).

d) In 2006, current and/or former Directors and Officers subscribed for 145,500 shares of the Company for total proceeds of $130,950.

e) Consulting fees totalling $16,000 were paid to a former Director and his spouse in 2007 (2006: $96,000).

f) Administrative services, office supplies and accounting charges totalling $110,161 were paid to Oniva International Services Corporation ("Oniva"), a private company owned by public companies having common Directors (2006: $113,865).

12. Related Party Transactions - *Continued*

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 parties 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.

14. Commitment

As at December 31, 2007 $1,400,100 of eligible Canadian exploration expenditures had not yet been expended by the Company. The Company is committed to spend this amount on qualifying expenditures by December 31, 2008.

15. Segment Disclosure

The Company operated in two segments – oil and gas and real estate rental. Operating results by segment are reported in the statement of operations. Total assets and capital expenditures by operating segment are as follows:

		2007		2006
Assets by operating segment				
Oil and gas	$	5,717,253	$	9,182,115
Real estate (Discontinued Operations)		-		2,090,035
Assets not allocated				
Head office		54,519		624,529
	$	5,771,772	$	11,896,679

		2007		2006
Capital expenditures by segment				
Oil and gas	$	2,381,954	$	6,739,480
Head office		-		-
	$	2,381,954	$	6,739,480

All of the Company's operations are in Canada. Rental revenue of $4,000 (2006: $6,000) has been eliminated on roll-up of the divisions representing the rental of office premises by the corporate head office.

16. Reconciliation Between Canadian and United States Generally Accepted Accounting Policies

The financial statements of Berkley have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") which differs in certain material respects from accounting principles generally accepted in the United States of America ("US GAAP"). The material differences between Canadian GAAP and US GAAP and their effect on Berkley's financial statements are summarized below:

Statement of Operations	2007	2006	2005 As restated	2005 As previously reported
Loss for the year under Canadian GAAP	$ (3,525,922)	$ (3,236,759)	$ (522,458)	$ (1,922,458)
Reduction in (additional) impairment of oil and gas properties under US GAAP (a)	588,730	(665,784)	(2,301,603)	(600,000)
Depletion, amortization and accretion expense (a)	382,472	321,709	-	-
Remove tax impact on renouncement of flow-through shares	(689,609)	(934,044)	(39,210)	(583,706)
Loss for the year under US GAAP	$ (3,244,329)	$ (4,514,878)	$ (2,863,271)	$ (3,106,164)
Loss per share under US GAAP	$ (0.16)	$ (0.31)	$ (0.29)	$ (0.32)

Statement of Cash Flows	2007	2006	2005 As restated	2005 As previously reported
Increase (decrease) in cash for the year under Canadian GAAP	$ (451,188)	$ (1,396,435)	$ 1,182,003	$ 1,182,003
Increase (decrease) in cash during the year under US GAAP	$ (451,188)	$ (1,396,435)	$ 1,182,003	$ 1,182,003

Balance Sheets	2007	2006
Oil and gas properties - Canadian GAAP	$ 5,456,007	$ 8,581,024
Additional impairment under US GAAP (a)	(2,378,657)	(2,967,387)
Depletion, amortization and accretion expense (a)	704,181	321,709
Oil and gas properties - US GAAP	3,781,531	5,935,346
Other liabilities - US GAAP (d and i)	(107,700)	(934,044)
Shareholders' equity - Canadian GAAP	4,634,975	7,299,365
Share capital (e)	12,347,593	11,577,934
Contributed surplus	1,030,532	804,412
Deficit	(8,743,150)	(5,082,981)
	4,634,975	7,299,365
Impairment of oil and gas properties	(2,378,657)	(2,967,387)
Depletion, amortization and accretion	704,181	321,709
Tax impact on renouncement of flow-through shares	(107,700)	(934,044)
Shareholders' equity - US GAAP	$ 2,852,799	$ 3,719,643

16. Reconciliation Between Canadian and United States Generally Accepted Accounting Policies - *Continued*

a) Under US GAAP the ceiling test for impairment used in connection with the full cost method of accounting for oil and gas operations requires the discounting of future net operating revenues by 10% using proved reserves only under constant pricing. Under Canadian GAAP, the ceiling test is based on discounted future net operating revenues using the Company's risk-free rate of interest for proved and probable reserves at forecasted pricing.

At December 31, 2007, the Company applied a ceiling test to its oil and gas properties using December 31, 2007 prices of:

Gas (per thousand cubic feet)	$ 6.30 CDN
Crude oil (per barrel)	$76.53 CDN

The application of the US GAAP ceiling test resulted in a decrease to the carrying value of the oil and gas properties of $3,494,270. Under Canadian GAAP, the application of this test required an additional impairment to that required under US GAAP of $588,730 for a total reduction in the carrying value of the oil and gas properties of $4,083,000.

At December 31, 2006, the Company applied a ceiling test to its oil and gas properties using December 31, 2006 prices of:

Gas (per thousand cubic feet)	$ 5.95 CDN
Crude oil (per barrel)	$60.20 CDN

The application of the US GAAP ceiling test resulted in a decrease to the carrying value of the oil and gas properties of $3,050,784. Under Canadian GAAP, the application of this test required a reduced impairment of $2,385,000 to the carrying value of the oil and gas properties for a difference between the two of $665,784.

At December 31, 2005, the Company applied a ceiling test to its oil and gas properties using December 31, 2005 prices of:

Gas (per thousand cubic feet)	$ 9.54 CDN
Crude oil (per barrel)	$59.44 CDN

The application of the US GAAP ceiling test resulted in an additional impairment to carrying value of the oil and gas properties of $2,301,603. The change from the previously reported impairment amount of $600,000 was a result of the ceiling test initially being calculated using a discount rate of 5% as opposed to the 10% discount rate that is required for constant pricing under US GAAP. The revised write-down for the year ended December 31, 2005 reflects the write-down required as a result of the carrying value of the oil and gas properties exceeding the ceiling test value under US GAAP.

In addition, the cumulative difference between Canadian GAAP and US GAAP since inception of oil and gas operations to December 31, 2007 is that additional depletion of $704,181 (2006 – $321,709, 2005 - $Nil) has been recorded under US GAAP.

16. Reconciliation Between Canadian and United States Generally Accepted Accounting Policies - *Continued*

b) During 2004, the Company adopted the fair value based method of accounting under Canadian GAAP for stock based compensation, as described in Notes 3i and 4a, with retroactive application with restatement of the prior year's statement of operations. Statement of Financial Accounting Standards ("SFAS") No. 148, Accounting for Stock-based Compensation – Transition and Disclosure, issued by the United States Financial Accounting Standards Board ("FASB") provides alternative methods of transition for entities that voluntarily change to the fair value based method of accounting and amends the disclosure provisions of SFAS No. 123, Accounting for Stock-based Compensation. For US GAAP purposes, the Company has adopted SFAS No. 123 and its amendment SFAS No. 123R, prospectively as of January 1, 2003. As a result, the stock option compensation expense recognized in 2007 is not materially different between US and Canadian GAAP.

Stock Options
December 31, 2007

	Number of options	Aggregate Intrinsic Value
Options outstanding at end of year	2,550,500	$574,519
Options exercisable at end of year	2,150,539	$469,667

c) Pro-forma disclosure of asset retirement obligations

SFAS 143 "Accounting for Asset Retirement Obligations" requires the recognition of the estimated fair value of asset retirement obligations as a liability commencing for all fiscal years beginning after June 15, 2002. The Company has adopted CICA Handbook Section 3110, which is in all material respects the same as FASB 143, effective January 1, 2003. Accordingly, there were no material differences between Canadian GAAP and US GAAP in respect of the accounting for asset retirement obligations.

d) Under Canadian GAAP, the future income taxes are calculated based on enacted or substantially enacted tax rates applicable to future years. Under US GAAP, only enacted rates are used in the calculation of future income taxes. This difference in GAAP did not result in a difference in the financial position, results of operations or cash flows of the Company for the years ended December 31, 2007, 2006 and 2005.

Under Canadian income tax legislation, a company is permitted to issue shares whereby the company agrees to incur qualifying expenditures and renounce the related income tax deductions to the investors. The Company has accounted for the issue of flow-through shares using a method in accordance with Canadian GAAP. At the time of issue, the funds received are recorded as share capital. At the time the expenditures are renounced for tax purposes, the tax effect of the expenditures is debited to share capital and a related future tax liability is created. This liability may be subsequently removed with tax assets. For US GAAP, the premium paid in excess of the market value is credited to other liabilities and included in income as the qualifying expenditures are made and renounced. There was a premium received for the 2006 and 2007 flow-through offerings (note 16i).

Also, notwithstanding whether there is a specific requirement to segregate the funds, the flow-through funds which are unexpended at the balance sheet dates are considered to be restricted and are not considered cash or cash equivalents under US GAAP. At December 31, 2007, unexpended flow-through funds were $1,400,100 (2006 - $2,673,196) *(Note 11e)*.

e) In May 2003, the FASB issued Statement No. 150 ("SFAS No. 150"), Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity. SFAS No. 150 establishes standards for classifying and measuring as liabilities certain financial instruments that embody obligations of the issuer and have characteristics of both liabilities and equity. SFAS No. 150 represents a significant change in practice in the accounting for a number of financial instruments, including mandatorily redeemable equity instruments and certain equity derivatives. SFAS No. 150 is effective for all financial instruments created or modified after May 31, 2003, and to other instruments as of September 1, 2003. The Company has not issued any financial instruments that fall under the scope of SFAS No. 150 and the adoption of this statement did not have a material impact on the Company's financial position or results of operations.

16. Reconciliation Between Canadian and United States Generally Accepted Accounting Policies - *Continued*

f) In December 2004, FASB issued SFAS No. 153, “Exchanges of Nonmonetary Assets - An Amendment of APB Opinion No. 29”. The guidance in APB Opinion No. 29, “Accounting for Nonmonetary Transactions”, is based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. The guidance in that Opinion, however, included certain exceptions to that principle. SFAS No. 153 amends Opinion No. 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. The provisions of SFAS No. 153 are effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. Early application is permitted and companies must apply the standard prospectively. The adoption of this standard is not expected to have a material effect on the Company’s results of operations or financial position.

g) In May 2005, the FASB issued SFAS 154, “Accounting Changes and Error Corrections,” which replaces APB Opinion No. 20, “Accounting Changes,” and supersedes FASB Statement No. 3, “Reporting Accounting Changes in Interim Financial Statements – an amendment of APB Opinion No. 28.” SFAS 154 requires retrospective application to prior periods’ financial statements of changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. When it is impracticable to determine the period-specific effects of an accounting change on one or more individual prior periods presented, SFAS 154 requires that the new accounting principle be applied to the balances of assets and liabilities as of the beginning of the earliest period for which retrospective application is practicable and that a corresponding adjustment be made to the opening balance of retained earnings for that period rather than being reported in an income statement. When it is impracticable to determine the cumulative effect of applying a change in accounting principle to all prior periods, SFAS 154 requires that the new accounting principle be applied as if it were adopted prospectively from the earliest date practicable. SFAS 154 shall be effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The Company does not expect the provisions of SFAS 154 will have a significant impact on its results of operations.

h) In February 2006, the FASB issued SFAS No. 155, “Accounting for Certain Hybrid Financial Instruments, an amendment of FASB Statements No. 133 and 140.” This statement permits fair value re-measurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation. It establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation. In addition, SFAS 155 clarifies which interest-only strips and principal-only strips are not subject to the requirements of Statement 133. It also clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives. SFAS 155 amends Statement 140 to eliminate the prohibition on a qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. This Statement is effective for all financial instruments acquired or issued after the beginning of an entity’s first fiscal year that begins after September 15, 2006. The adoption of this standard is not expected to have a material effect on the Company’s results of operations or financial position.

16. Reconciliation Between Canadian and United States Generally Accepted Accounting Policies - *Continued*

i) Under United States GAAP SFAS 109, if flow-through shares are sold at a premium, the premium is recorded as a liability. If flow-through shares are sold at a discount, the discount is recorded as an asset. As restricted cash is spent, the premium or discount is recognized as income or expense, respectively.

The December 2006 flow-through shares were priced at $0.90 and the fair market of the Company's shares was $0.85.

Premium on flow-through share issuance is as follows:

3,613,015 flow-through shares at $0.90	$	3,251,713
3,613,015 flow-through shares at $0.85		3,071,063
Premium on flow-through shares	$	180,650

The December 2007 flow-through shares were priced at $0.65 and the fair market of the Company's shares was $0.60.

Premium on flow-through share issuance is as follows:

2,154,000 flow-through shares at $0.65	$	1,400,100
2,154,000 flow-through shares at $0.60		1,292,400
Premium on flow-through shares	$	107,700

j) Presentation

There are different presentations between Canadian and U.S. GAAP which are as follows:

1) No subtotal is permitted under U.S. GAAP within cashflow from operations on the statement of cashflows.
2) Under U.S. GAAP, there is no difference between net income and total comprehensive income.

17. Correction of error

In 2006 the Company determined that the 2005 financial statements erroneously stated a write-down against its oil and gas properties and equipment. The original ceiling test calculations resulted in a write-down of $1,400,000 which was applied against operations in 2005. A correction in the calculations in accordance with Canadian GAAP resulted in no write-down being required. An adjustment has been made to credit the write-down expense and debit accumulated amortization and depletion for the amount of $1,400,000. The following outlines the adjustment to the 2005 financial statements:

	December 31, 2005 as previously reported	Adjustment	December 31, 2005 as restated
Asset			
Oil & gas properties and equipment	$ 3,939,531	$ 1,400,000	$ 5,339,531
Equity			
Deficit	3,246,222	(1,400,000)	1,846,222
Expense			
Write-down of oil and gas properties	1,400,000	(1,400,000)	-
Net oil and gas income (loss)	(1,266,981)	1,400,000	133,019
Loss or the year	$ (1,922,458)	$ 1,400,000	$ (522,458)

18. Subsequent Event

Subsequent to year end, the Company received a default notice concerning amounts owing to its joint venture partner with respect to the Senex area operations. There are several items in this account that are in dispute and each party is bringing forth its position to the courts. The outcome of this dispute is undeterminable at this time.