BERKLEY RESOURCES INC.

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Q1 INTERIM FINANCIAL STATEMENTS

FOR PERIOD ENDING MARCH 31, 2007

Shares Traded

TSX Venture Exchange
Symbol: BKS

OTCPK
Symbol: BRKDF

Directors and Officers

Lloyd Andrews, Director & Chairman
Matt Wayrynen, Director, Executive Chairman and CEO
Lindsay Gorrill, Director, President and COO
David Wolfin, Director & VP Finance
Jim O'Byrne, Director & VP Operations
Ron Andrews, Director
Louis Wolfin, Director
Phillip Piffer, Director
Tyrone Docherty, Director
Connie Lillico, Secretary

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

BERKLEY RESOURCES INC.
BALANCE SHEETS
(Prepared by Management)

As at		**March 31, 2007**		**December 31, 2006**
		(Unaudited)		**(Audited)**
ASSETS				
Current Assets				
Cash	$	143,959	$	498,246
Accounts receivable		476,226		607,436
Taxes recoverable		1,702		16,145
Prepaid expenses		31,360		15,933
Deferred financing fees		85,918		134,247
		739,165		1,272,007
Oil and gas properties and equipment (Note 4)		9,209,969		8,581,024
Other property plant and equipment (Note 6)		4,312		4,724
Assets of discontinued operations (Note 2 and 5)		2,038,924		2,038,924
	$	11,992,370	$	11,896,679
LIABILITIES				
Current Liabilities				
Accounts payable and accrued liabilities	$	919,052	$	1,015,594
Due to related parties (Note 10)		96,694		68,433
Bank loans and liabilities of discontinued operations (Note 2 and 7)		3,864,253		3,377,612
		4,879,999		4,461,639
Asset Retirement Obligation		138,475		135,675
		5,018,474		4,597,314
SHAREHOLDERS' EQUITY				
Share Capital (Note 8)		11,577,934		11,577,934
Contributed Surplus		856,876		804,412
Deficit		(5,460,914)		(5,082,981)
		6,973,896		7,299,365
	$	11,992,370	$	11,896,679

NOTE 1 – NATURE OF OPERATIONS
Approved by the Directors:

“Matt Wayrynen” Director *“Lindsay Gorrill”* Director

BERKLEY RESOURCES INC.
STATEMENTS OF OPERATIONS
(Unaudited - Prepared by Management)

	Three Months Ended March 31, 2007	2006
OIL AND GAS REVENUE	$ 473,977	$ 483,668
Oil and gas production expenses		
Operating costs	212,226	185,280
Interest on loans	49,710	-
Amortization, depletion and accretion	252,800	222,250
	514,736	407,530
NET OIL AND GAS INCOME (LOSS)	(40,759)	76,138
GENERAL AND ADMINISTRATIVE EXPENSES		
Administrative, office services and premises	85,237	80,958
Stock based compensation	52,464	73,940
Management fees	58,177	62,573
Consulting fees	28,310	63,594
Professional fees	5,597	22,280
Finance fees on debt	48,329	-
Filing and transfer agent fees	9,592	9,748
Shareholder information	10,055	2,974
Amortization	507	365
	(298,268)	(316,432)
OTHER INCOME (EXPENSES)		
Interest expense	(845)	(842)
Write-down of receivable	(11,995)	-
Interest and other income	664	6,494
	(310,444)	(310,780)
LOSS BEFORE DISCONTINUED OPERATIONS	(351,203)	(234,642)
Discontinued Operations	(26,730)	(33,088)
LOSS FOR THE PERIOD	$ (377,933)	$ (267,730)
BASIC AND DILUTED LOSS PER SHARE BEFORE DISCONTINUED OPERATIONS	$ (0.02)	$ (0.02)
BASIC AND DILUTED LOSS PER SHARE AFTER DISCONTINUED OPERATIONS	$ (0.02)	$ (0.02)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	18,857,608	14,184,955

BERKLEY RESOURCES INC.
STATEMENTS OF DEFICIT
(Unaudited - Prepared by Management)

	Three Months Ended March 31,			
		2007		2006
				(Restated) (Note 13)
DEFICIT, beginning of period	$	(5,082,981)	$	(1,846,222)
Loss for the period		(377,933)		(267,730)
DEFICIT, end of period	$	(5,460,914)	$	(2,113,952)

BERKLEY RESOURCES INC.
STATEMENTS OF CASH FLOWS
(Unaudited - Prepared by Management)

	Three Months Ended March 31, 2007	2006
CASH PROVIDED BY (USED IN)		
OPERATING ACTIVITIES		
Loss for the period from continuing operations	$ (351,203)	$ (234,642)
Items not requiring cash in the year:		
Amortization, depletion and accretion	253,307	222,615
Finance fees on debt	48,329	-
Stock based compensation	52,464	73,940
	2,897	61,913
Net change in non-cash working capital balances:		
Accounts receivable	131,210	67,960
Taxes recoverable	14,443	16,705
Prepaid expenses	(15,427)	(15,716)
Prepaid oil and gas costs	-	295,350
Accounts payable and accrued liabilities	(96,542)	273,447
Due to related parties	28,261	(71,004)
	64,842	628,655
INVESTING ACTIVITIES		
Oil and gas properties and equipment, net	(878,945)	(1,019,866)
Other property, plant and equipment	(95)	-
	(879,040)	(1,019,866)
FINANCING ACTIVITIES		
Issuance of common shares	-	-
	-	-
Net cash increase (decrease) from continuing operations	(814,198)	(391,211)
Net cash increase (decrease) from discontinued operations (Note 2)	459,911	(163,257)
Cash, beginning of period	498,246	1,894,681
Cash, end of period	$ 143,959	$ 1,340,213

NOTE 1 – NATURE OF OPERATIONS

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 rents commercial office space in a building it owns in Vancouver, Canada. The commercial rental operations have been discontinued as a result of the planned sale of the building subsequent to the period end (Note 2).

These financial statements have been prepared on the basis of accounting principles applicable to a going concern which assumes that Berkley Resources Inc. (the "Company" or "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.

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.

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.

NOTE 2 – DISCONTINUED OPERATIONS

During the period ended March 31, 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 is expected to be sold for $4,000,000 on or before September 7, 2007 and has a carrying value of $2,038,924. Summarized financial information relating to the discontinued operations is as follows:

Assets:

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

Liabilities:

	March 31, 2007	December 31, 2006
Canadian Imperial Bank of Commerce loan	$ 563,431	$ 577,612
Quest Capital Corp. loan	2,800,000	2,800,000
Deposit held on planned sale of rental property	500,822	-
	$ 3,864,253	$ 3,377,612

NOTE 2 – DISCONTINUED OPERATIONS (continued)

Operating results:

	Three Months Ended March 31, 2007	2006
Rental Revenue	$ 62,346	$ 60,832
Rental operations expenses		
Operating costs	46,117	44,631
Interest on bank loan	42,959	45,925
Amortization	-	3,364
	89,076	93,920
Net Rental Loss	$ (26,730)	$ (33,088)

Cash flows:

	Three Months Ended March 31, 2007	2006
Operating activities		
Loss for the period	$ (26,730)	$ (33,088)
Amortization	-	3,364
	(26,730)	(29,724)
Financing activities		
Deposit received on planned sale of rental property	500,822	-
Bank and other loans received	-	(133,533)
Bank and other loans repaid	(14,181)	-
	486,641	(133,533)
Net cash increase (decrease) in cash from discontinued operations	$ 459,911	$ (163,257)

NOTE 3 – BASIS OF PRESENTATION

These unaudited Financial Statements have been prepared in accordance with the instructions for the preparation of such financial statements contained in the CICA Handbook Section 1751. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such instructions. These Unaudited Financial Statements should be read in conjunction with the Audited Financial Statements and Notes thereto for the fiscal year ended December 31, 2006. These Financial Statements, and accompanying Notes, have not been reviewed by an auditor.

In the opinion of the Company's management, all adjustments considered necessary for a fair presentation of these unaudited financial statements have been included and all such adjustments are of a normal recurring nature. Operating results for the nine month period ended September 30, 2006 are not necessarily indicative of the results that can be expected for the year ended December 31, 2006.

NOTE 4 – OIL AND GAS PROPERTIES AND EQUIPMENT

		March 31, 2007		December 31, 2006
Oil and gas properties and equipment, cost	$	16,914,596	$	16,035,651
Less: Accumulated amortization and depletion		(7,704,627)		(5,069,627)
Write-down of oil and gas properties		-		(2,385,000)
	$	9,209,969	$	8,581,024

Oil and gas properties and equipment includes the cost of unproven properties of approximately $3,891,080 at March 31, 2007 (December 31, 2006 - $3,832,346), which are currently not subject to depletion.

NOTE 5 – ASSETS OF DISCONTINUED OPERATIONS

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

NOTE 6 – OTHER CAPITAL ASSETS

						March 31, 2007		December 31, 2006
		Cost		Accumulated amortization		Net		Net
Computer equipment	$	28,477	$	(26,174)	$	2,303	$	2,609
Furniture and fixtures		8,521		(6,513)		2,008		2,114
Truck		39,040		(39,039)		1		1
	$	76,038	$	(71,726)	$	4,312	$	4,724

NOTE 7 – BANK LOANS AND LIABILITIES OF DISCONTINUED OPERATIONS

	March 31, 2007	December 31, 2006
Canadian Imperial Bank of Commerce loan	$ 589,402	$ 577,612
Quest Capital Corp. loan	2,800,000	2,800,000
Deposit held on planned sale of rental property	500,822	-
	$ 3,864,253	$ 3,377,612

The bank loan payable to the Canadian Imperial Bank of Commerce ("CIBC") bears interest at prime plus 1.00% per annum, is due on demand, and is secured by a first mortgage in the amount of $650,000 over the Company's rental property (Note 4) and an assignment of rents and insurance. Also, one director has supplied a guarantee of $300,000.

The bank loan payable to Quest Capital Corp ("Quest") bears interest at 12.00% per annum with monthly interest only payments of approximately $28,000 and is 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. The balance of the loan is due September 7, 2007. The lender, at its option, may extend the maturity date of this loan by one year at the request of the Company.

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 March 31, 2007, there was a nil balance outstanding with regard to the credit line.

NOTE 8 – SHARE CAPITAL

(a) Authorized

Unlimited common shares, without par value

	March 31, 2007			December 31, 2006		
Issued and fully paid:	Number of Shares			Number of Shares		
Balance, beginning of period	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	-		-	3,613,015		3,251,713
- non-flow-through for cash	-		-	755,600		642,260
- non-flow-through for services	-		-	301,538		196,000
Exercise of stock options	-		-	-		-
Exercise of warrants	-		-	2,500		3,750
Share issuance costs	-		-	-		(246,361)
Future income taxes on renouncement of resource property expenditures	-		-	-		(1,114,694)
Future income taxes on share issue costs	-		-	-		82,595
Contributed surplus on exercise of stock options	-		-	-		16,460
Balance, end of period	18,857,608	$	11,577,934	18,857,608	$	11,577,934

(b) Stock options

	March 31, 2007		**December 31, 2006**	
	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 period	2,214,000	$0.68	1,634,000	$0.72
Activity in the period:				
Granted	-	-	600,000	0.56
Exercised	-	-	-	-
Cancelled	(13,500)	0.70	(20,000)	0.78
Lapsed	-	-	-	-
Balance outstanding, end of period	2,200,500	$0.67	2,214,000	$0.68

NOTE 8 – SHARE CAPITAL (continued)

A summary of stock options outstanding is as follows:

		Number of Shares Remaining Subject to Options at End of Period	
Exercise Price Per Share	**Expiry date**	**March 31, 2007**	**December 31, 2006**
$0.52	September 19, 2008	580,500	580,500
$0.57	September 19, 2008	150,000	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	640,000
$0.56	September 21, 2011	595,000	600,000
		2,200,500	2,214,000

The Company has adopted a 2006 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 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 2,200,500 shares have been granted and are outstanding at March 31, 2007 under the Plan.

Effective January 1, 2004, the Company adopted the provisions of *CICA Handbook Section 3870 “Stock Based Compensation and Other Stock Based Payments”* with respect to the fair market value accounting for stock options granted to employees. In prior years, the Company recorded the fair market value of the stock options granted to non-employees only as compensation expense.

During the three months ended March 31, 2007, there were no stock options granted.

During the year ended December 31, 2006 the Company granted stock options for the purchase of up to 600,000 shares at a price of $0.56 per share exercisable on or before September 21, 2011 to directors, officers, employees and consultants of the Company. The fair value of the options to be charged to operations over the eighteen month vesting period is $198,900. The fair value of the options granted was estimated at the date of granting using the Black-Scholes option pricing model with the following assumptions: risk free interest rate of 3.91%, dividend yield of 0%, volatility factor of 55%, and an average life of 3 years.

The Black-Scholes valuation model was developed for use in estimating the fair value of traded options which are fully transferable and freely traded. In addition, option valuation models require the input of highly subjective assumptions including estimated stock price volatility. Because the Company’s stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management’s opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

NOTE 8 – SHARE CAPITAL (continued)

(c) Warrants

A summary of share purchase warrants outstanding is as follows:

		Number of Warrants	
Exercise Price Per Share	**Expiry date**	**March 31, 2007**	**December 31, 2006**
$1.25	December 28, 2007	636,000	636,000
$1.20/$1.50	April 30, 2007 / December 31, 2007	377,800	377,800
		1,013,800	1,013,800

NOTE 9 – INCOME TAXES

The potential benefit of net operating loss carry forwards has not been recognized in the financial statements since the Company cannot be assured that it is more likely than not that such benefit will be utilized in future years.

NOTE 10 – RELATED PARTY TRANSACTIONS

Due to related parties consists of $16,742 (2006 - $16,651) due to Directors of the Company for Directors fees and expense reimbursements and $79,952 (2006 - $51,782) to a private company owned by public companies having common Directors that provides administrative services, office supplies and accounting services.

Management and consulting fees totaling $58,177 (2006 - $62,573) were paid to Directors and their private companies in the period.

Consulting fees totaling $16,000 (2006 - $24,000) were paid to a former Director and his spouse in the period. The commitment towards these fees has ended in the period.

Administrative services, office supplies and accounting charges totaling $26,624 (2006 - $26,427) were paid to Oniva International Services Corp. (“Oniva”), a private company owned by public companies having common Directors. 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.

NOTE 11 – COMMITMENTS

On December 12, 2006, the Company entered into a consulting agreement with an unrelated party. The consultant will provide assistance in various financing activities. The Company will pay a cash fee of 7% of the gross amount of proceeds of an equity financing or mezzanine financing and 3% of gross amount and proceeds of a debt financing, loan, line of credit or other non-equity financing sourced by the consultant respectively. The agreement terminates on November 9, 2007.

As at March 31, 2007, $2,505,896 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, 2007.

NOTE 12 – COMPARATIVE FIGURES

Certain of the comparative figures for 2006 have been reclassified, where applicable, to conform to the presentation adopted for the current year.

NOTE 13 – PRIOR PERIOD ADJUSTMENT

During the year ended December 31, 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 effect on the opening deficit for the three month period ended March 31, 2006 was a decrease from $3,246,222 to $1,846,222.

NOTE 14 – SUBSEQUENT EVENTS

Subsequent to the period ended March 31, 2007 the Company has arranged a non-brokered private placement of up to 3,320,000 flow-through shares at a price of $0.75 per share. Each flow-through share will entitle the investor to the tax benefits of the qualifying Canadian exploration expenses incurred by the Company, which will be "flowed-through" to the investor.

Subsequent to the period ended March 31, 2007 the Company has also arranged a non-brokered private placement of up to 680,000 units at a price of $0.75 per unit with each unit consisting of one common share and one-half non-transferable share purchase warrant. Each whole warrant under the Non Flow Through Offering will entitle the investor to purchase one additional share at a price of $1.00 during the first year from the date of closing.

The following discussion and analysis of the operations, results and financial position of Berkley Resources Inc. (the "Company" or "Berkley") for the period ended March 31, 2007 should be read in conjunction with the March 31, 2007 interim financial statements and the related notes. The effective date of this report is May 29, 2007.

Forward Looking Statements

Except for historical information, the Management's Discussion & Analysis (the "MD&A") may contain forward-looking statements. These statements involve known and unknown risks, uncertainties, and other factors that may cause the Company's actual results, levels of activity performance or achievement to vary from those expressed or implied by these forward looking statements.

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 also has real estate holdings. The Company's real estate holdings are being sold and the transaction is expected close on September 7th, 2007 or earlier. The Company is a reporting issuer in British Columbia and Alberta and trades on the TSX Venture Exchange under the symbol BKS, on the OTC as a foreign issuer under the symbol BRKDF and on the Frankfurt Stock Exchange under the symbol W80 and WKN 871666.

Overall Performance

The Company operates in two distinct segments, oil and gas and real estate rental. An overview analysis by segment is as follows:

Oil and Gas

Industry Overview

The oil and gas industry had a readjustment in the first quarter 2007. With the current change in tax legislation outlined by the Canadian Finance Minister on October 31st, 2006 has slowed down the activities of the Royalty Income Trusts ("RITS"). We believe this change will benefit the oil and gas junior companies, like Berkley, in cost of operations, opportunities and more funds flowing into these juniors where over the past few years the funds were being directed into the RITS. Currently the increase investment flow into Junior Oil and Gas companies has not happened, but we see a large amount of investment dollars available, which will need to be invested in the second half of 2007 a large portion of which should be going to the Juniors. Oil prices fluctuated between $51 US and $67 US per barrel over the first 5 months of 2007, with prices closing at $63.59 on May 24th, 2007 ($per barrel for West Texas Intermediate (WTI)). Natural gas prices have also been very volatile through the first 5 months of 2007 fluctuating between $5.50/mcf US and $9/mcf US during the year, closing at $7.57/mcf US on May 24th, 2007. Costs of all related services have been high for 2006 but with the changes to the RITS, discussed above, we believe that both competition for labour, goods and services throughout industry and costs related to drilling and new exploration will soften going through 2007. This apparent softening has happened as rig utilization in Alberta is way down and should translate into reduce drilling costs.

Company Activity

The Company has drilling scheduled for two areas in Alberta during the balance of 2007 and into 2008. Both are high quality prospects, one is natural gas (Crossfield) and the second is a combination of dual zone oil and shallow natural gas (Senex). The Company recently reported on these two areas as follows:

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

Berkley (20% ±) and its operating partner Onefour Energy Ltd. (80% ±) have increased their land holdings in this area to approximately 70 sections. This increase in land holdings will provide the Company with a very large block on which to develop all three productive formations identified to date. The formations are: Keg River (oil), Slave Point (oil) and Blue Sky (gas).

The Company and its partner have a nine Keg River well drilling program planned between August 2007 and April 2008. This drilling program will cost the Company approximately $2 million. The Company and its partner have also planned a 6 well program in the Slave Point zone. The 6 targets are 2 water injection wells and 4 targeted as producers. The Company and its partner have also been injecting water over the last 4 months into this Slave Point zone and should begin to see results over the next 2 months. One test well has increased oil production from 9BOE/d to as high as 70BOE/d. Over the last year and a half the Company and its partner have completed approximately 45 sections of 3D seismic. The Company is reviewing and analyzing this seismic and may come up with new targets in addition to those mentioned above for the next drilling period which is August through April.

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

The licensing process of this sour-gas prospect is well underway. The Company (35%) 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 is currently negotiating to improve its land position in this area but currently have sufficient holdings to move ahead with our own drilling plans. The Company believes that it should have its licensing hearing by September, 2007 and believes that they should be approved to drill before the end of 2007.

Summary

The Company has made a major commitment to the Senex Area in north-central Alberta. Large resource of oil has been identified in two Devonian formations and a significant natural gas reserve in shallow lower Cretaceous sand. All three opportunities are being evaluated and the Company has drilled 5 successful Keg River wells between August 2006 and February 2007. As stated above, we have targeted nine more wells in the Keg river zone and 6 more wells in the Slave Point zone which is budgeted to be drilled between August 2007 and April 2008. The Company's working interest in this project is 20%. Good progress is being made in the licensing process at Crossfield. The Company now expects to go to it's hearing on licensing by September 2007 and hopes to drill by the end of the year.

Real estate

The office building in downtown Vancouver continues to have near full occupancy, with consistent operating results within a narrow range. In all material aspects, the building achieved breakeven on an operating basis. In order to expand the Company's oil and gas opportunities there was an addition of a new mortgage on the building in 2005 and subsequent increase in the mortgage in the third quarter of 2006. As a result, the building is currently running at a monthly cash flow deficit of approximately $15,000. The Company is selling this property for $4 million and is expecting to close the sale of the building on or before September 7, 2007. Because the real estate property is being sold and the sale is expected to be completed by September 2007, it is now disclosed as discontinued operations in the December 31, 2006 year end financial statements.

Results of Operations

Three months ended March 31, 2007 ("Q1-2007") compared with the three months ended March 31, 2006 ("Q1-2006").

Oil and gas

Oil and gas revenue was $473,977 for Q1-2007 compared to $483,668 for Q1-2006, a decrease of $9,691. The decrease in revenue is primarily due to a decrease in production from the Senex property as there has been a focus on water injection activities throughout the most recent quarter. The production expenses for Q1-2007 were higher at $514,736 compared to $407,530 for Q1-2006, and increase of $107,206. There were increases of $26,946 in operating costs, $49,710 in interest charges, and $30,550 in amortization, depletion and accretion. The demand for labour, services and equipment continues to put upward pressure on prices as is evident with the increase in operating costs. The interest charges are due to the new Quest Capital Corp. ("Quest") loan whereby 60% of the loan's interest is charged to the oil and gas segment. There was a net loss of $40,759 for the Q1-2007 compared to a net income of $76,138 reported for Q1-2006, a decrease of $116,897. The net loss was largely due to the interest charges incurred in the current quarter compared to $nil in Q1-2006. Depletion and accretion charges were also higher by $30,550 in Q1-2007.

Head office - general and administrative expenses

General and administrative expenses totaled $298,268 for Q1-2007 compared with $316,432 for Q1-2006. The decrease of $18,164 was a result of a combination of cost increases and decreases. Increases of $4,279 in administrative, office services and premises, $48,329 in finance fee on debt and $7,081 in shareholder information fees were experienced while there were decreases of $21,476 in stock based compensation, $4,396 in management fees, $35,284 in consulting fees, and $16,683 in professional fees. The finance fees on debt charged during Q1-2007 was that quarter's portion of $134,247 in deferred costs booked at the 2006 year end. There were no finance fees on debt in Q1-2006. Administrative, office services and premises expense was higher in Q1-2007 due to general increases in office overhead and travel costs. Shareholder information costs were higher in Q1-2007 as a result of increased advertising and tradeshow participation. The decrease in consulting fees is because of fewer consulting agreements with unrelated parties to seek out financial opportunities compared to Q1-2006 and the expiration of long-term consulting agreements that had a total cost of $8,000 per month. Professional fees were higher in Q1-2006 due to legal services concerning business opportunities whereas there was less activity in this regard in the current quarter.

Real estate (Discontinued operations)

There was a net rental loss of $26,730 for Q1-2007 compared with $33,088 for Q1-2006, a difference of $6,358. The building had full occupancy in Q1-2007 which was slightly higher than in Q1-2006 and the resulting increase in rental revenue was $1,514. Operating costs remained fairly consistent and increased by $1,486 in Q1-2007. The net rental loss was lower in Q1-2007 because of lower interest charges and no amortization charges. There was no amortization recorded for Q1-2007 due to the status of the asset being changed to that of an asset being held for sale whereas there was $3,364 in amortization charged in the previous year's quarter.

Loss for the period

Loss for Q1-2007 was $377,933 compared with $267,730 for Q1-2006, an increase of $110,203. As noted above, net oil and gas results went from an income in Q1-2006 to a loss in the current period, a negative difference of $116,897 and this dictated the overall result in Q1-2007. General and administrative costs were lower in the current quarter while the cost of other items were higher. These two results basically negated each other's impact on the overall difference between quarters.

Summary of Quarterly Results

	2007	2006	2006	2006	2006	2005	2005	2005
Period Ended	**Mar 31** Q1 $	**Dec 31** Q4 $	**Sep 30** Q3 $	**Jun 30** Q2 $	**Mar 31** Q1 $	**Dec 31** Q4 $	**Sep 30** Q3 $	**Jun 30** Q2 $
Net oil and gas income (loss)	(40,759)	(2,912,029)	19,890	(51,335)	76,138	(199,710)	84,844	83,378
Discontinued operations	(26,730)	(33,905)	(64,441)	(36,694)	(33,088)	(8,576)	(22,786)	(29,431)
Loss for the period	(377,933)	(2,060,027)	(504,034)	(404,968)	(267,730)	18,544	(187,373)	(231,260)
Basic and diluted loss per Share	(0.02)	(0.13)	(0.04)	(0.03)	(0.02)	0.00	(0.02)	(0.02)

Liquidity

At March 31, 2007 the Company had current assets of $739,165, of which $143,959 was comprised of cash. Current liabilities totaled $4,879,999, of which $3,864,253 was comprised of bank loans concerning the real estate property and oil and gas properties. Current assets were used to further investment in oil and gas properties and equipment by $878,945 in Q1-2007.

Total working capital deficiency at March 31, 2007 is $4,140,834. Total working capital deficiency includes a bank demand loan of $563,431 and a loan of $2,800,000 to Quest that will be due September 7, 2007. The Company's present arrangements with the lender of the bank demand loan call for monthly blended payments of $8,000. The Quest loan agreement calls for monthly interest only payments of approximately $28,000. These loans will be settled upon completion of the sale of the real estate asset and will thus have a positive impact on the Company's working capital.

The Company's debt facilities available comprises of a $50,000 standby line of credit which approximately $nil has been drawn against as of March 31, 2007.

The Company is addressing its' working capital needs with future proceeds from the sale of the real estate asset and pursuing additional equity financing. Subsequent to the period ended March 31, 2007, the Company has arranged for a flow-through private placement and a non-flow-through private placement that could raise up to $2,490,000 and $510,000 respectively less issuance costs.

Capital Resources

The Company plans to continue its participation in the two projects discussed above. The Company expects to finance expenditures on these projects through 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.

Transactions with Related Parties

Amounts due to related parties consists of $16,742 (2006 - $16,651) due to Directors of the Company for Directors fees and expense reimbursements and $79,952 (2006 - $51,782) to a private company owned by public companies having common Directors that provides administrative services, office supplies and accounting services.

Management and consulting fees totaling $58,177 (2006 - $62,573) were paid to Directors and their private companies in the period.

Consulting fees totaling $16,000 (2006 - $24,000) were paid to a former Director and his spouse in the period. The commitment towards these fees has ended in the period.

Administrative services, office supplies and accounting charges totaling $26,624 (2006 - $26,427) were paid to Oniva International Services Corp. ("Oniva"), a private company owned by public companies having common Directors. 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 period, $17,677 (2006: $17,573) was paid to the President for services as director and officer of the Company, $18,000 (2006: $15,000) was paid to the C.E.O. for services as director and officer of the Company, $7,500 (2006: $15,000) was paid to the V.P. Finance for services as director and officer of the Company, $15,000 (2006: $15,000) was paid to the V.P. Operations for services as director and officer of the Company, and $2,147 (2006: $2,960) was paid to the Secretary for services as an officer of the Company.

Changes in Accounting Policies

None.

Outstanding Share Data

The Company's authorized share capital consists of unlimited common shares without par value of which 18,857,608 are issued and outstanding.

Summary of management incentive options outstanding is as follows:

Exercise Price Per Share	Expiry Date	Number of Shares Remaining Subject to Options
$0.52	September 19, 2008	580,500
$0.57	September 19, 2008	150,000
$0.81	October 19, 2009	200,000
$0.77	October 29, 2009	37,500
$0.90	December 23, 2010	637,500
$0.56	September 21, 2011	595,000
		2,200,500

Summary of share purchase warrants outstanding is as follows:

Exercise Price Per Share	Expiry Date	Number of Underlying Shares
$1.25	December 28, 2007	636,000
$1.20/$1.50	April 30, 2007/December 31, 2007	377,800
		1,013,800

Subsequent Events

Subsequent to the period ended March 31, 2007 the Company has arranged a non-brokered private placement of up to 3,320,000 flow-through shares at a price of $0.75 per share. Each flow-through share will entitle the investor to the tax benefits of the qualifying Canadian exploration expenses incurred by the Company, which will be "flowed-through" to the investor.

Subsequent to the period ended March 31, 2007 the Company has also arranged a non-brokered private placement of up to 680,000 units at a price of $0.75 per unit with each unit consisting of one common share and one-half non-transferable share purchase warrant. Each whole warrant under the Non Flow-Through Offering will entitle the investor to purchase one additional share at a price of $1.00 during the first year from the date of closing.

Commitments

On December 12, 2006, the Company entered into a consulting agreement with an unrelated party. The consultant will provide assistance in various financing activities. The Company will pay a cash fee of 7% of the gross amount of proceeds of an equity financing or mezzanine financing and 3% of gross amount and proceeds of a debt financing, loan, line of credit or other non-equity financing sourced by the consultant respectively. The agreement terminates on November 9, 2007.

As at March 31, 2007, $2,505,896 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, 2007.

Additional Information

Additional information relating to the Company is available on SEDAR at www.sedar.com.