

The following discussion and analysis of the operations, results and financial position of Berkley Resources Inc. (the “Company” or “Berkley”) for the year ended December 31, 2010 should be read in conjunction with the December 31, 2010 audited year-end financial statements and the notes thereto.

This Management Discussion and Analysis (“MD&A”) is dated April 28, 2011 and discloses specified information up to that date. Berkley is classified as a “venture issuer” for the purposes of National Instrument 51-102. The Company’s financial statements are prepared in accordance with generally accepted accounting principles in Canada. Unless otherwise cited, references to dollar amounts are in Canadian dollars.

### **Forward-looking Statements**

Certain statements in this MD&A and the documents incorporated by reference contain forward-looking information, which includes forward-looking statements within the meaning of applicable Canadian securities laws. Forward-looking statements are statements which relate to future events or our future performance, including our future financial performance. In some cases, you can identify forward-looking statements by terminology such as “may”, “should”, “expects”, “plans”, “anticipates”, “believes”, “estimates”, “predicts”, or “potential” or the negative of these terms or other comparable terminology. These statements are only predictions and involve known and unknown risks, uncertainties and other factors that may cause the Company’s or the industry’s actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. No assurance can be given that any of the events anticipated by the forward-looking information and statements will occur or, if they do occur, what benefits the Company will obtain from them. This MD&A contains forward-looking information and statements, which may include but are not limited to: statements with respect to the financial and operating performance of the Company; investments objectives and strategies; the business goals and strategies; forecast operating and financial results; planned capital expenditures; potential future market for products; the Company’s plans for, and results of, exploration and development activities; the Company’s treatment under governmental regulatory and royalty regimes and tax laws; competitive advantages; business prospects and opportunities; costs and timing of developmental new projects; management’s assessment of future plans and operations; plans and timing related to the adoption of International Financial Reporting Standards (“IFRS”) and the effects thereof; elections anticipated to be made under IFRS; anticipated liquidity and various matters that may impact such liquidity; and requirements for additional capital.

While these forward-looking statements, and any assumptions upon which they are based, are made in good faith and reflect management’s current judgment regarding the direction of the business, actual results will almost always vary, sometimes materially, from any estimates, predictions, projections, assumptions or other future performance suggested in this MD&A. These assumptions, which includes management’s current expectations, estimates and assumptions about certain projects and the markets in which the Company operates, the global economic environment, interest rates, the successful and timely implementation of capital projects; the Company’s ability to generate sufficient cash flow from operations to meet current and future obligations and other risks and uncertainties described from time to time in the filings made with securities regulatory authorities; the policies of IFRS not changing prior to the Company implementing them; the impact of the IFRS on the Company’s financial statements; the impact of increasing competition; the Company’s ability to obtain qualified staff, equipment and services in a timely and cost efficient manner; the ability of the operator of the project in which the Company has interests to operate in a safe, efficient and effective manner; future commodity prices; currency, exchange and interest rates; the regulatory framework regarding royalties, taxes and environmental matters in the jurisdictions in which the Company operates may prove to be incorrect. A number of risks and uncertainties would cause the Company’s actual results to differ materially from those expressed or implied by the forward-looking information and statements, including, but not limited to: the failure of the Company to execute business plans; general economic conditions affecting the Company; risks arising

from operations generally; competition; accuracy of cost estimates; fluctuations in commodities prices; fluctuations in product supply and demand; risks associated with technology and its application to the business; changes in the applicable regulatory framework, including changes in regulatory approval process and land-use designations, royalty, tax, environmental, greenhouse gas, carbon and other laws and regulations, or changes to the associated with compliance; the loss of key management employees; the Company's abilities to control operating costs, general administrative and other expenses; other factors beyond the Company's control; insufficient investor interest in the Company's securities which may impact its ability to raise additional financing as required.

These forward-looking statements are based on the estimates and opinions of management at the time they are made. Although management believes that the expectations reflected in these forward-looking statements are reasonable, future results, levels of activity, performance or achievements cannot be guaranteed. Readers of this MD&A are cautioned not to rely on these forward-looking statements. Except as required by applicable securities law, the Company does not intend to update any of the forward-looking statements in this MD&A to conform these statements to actual results.

### **Description of Business**

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

### **Overall Performance and Outlook**

The Company's financial performance was affected by the disposition of its interest in the Dollard area, Saskatchewan effective October 1, 2010. Declines in oil and gas production for the three months and year ended December 31, 2010 compared with the same periods in 2009 are largely a result of not having production from Dollard after October 1, 2010. Although oil prices were higher in 2010 than in 2009, declines in gas prices and the disposition of the Company's working interest in Dollard resulted in lower oil and gas revenue for the year ended December 31, 2010. Despite ongoing unfavourable market conditions, the Company remains optimistic that the Crossfield natural gas project will continue to move forward with the Alberta licensing authorities.

### **Company Activity**

On July 8, 2010, the Company acquired a 53% interest in American Uranium Corporation, an exploration-stage company engaged in the acquisition and exploration of mineral property interests in the United States. As a result of the acquisition, the Company acquired net assets of \$796,316.

During the year ended December 31, 2010, the Company improved its cash position through the sale of certain interests. The Company realized net proceeds of \$43,333 from the sale of its 4.00% working interest in the Leduc project, \$138,774 from the sale of farm-in rights on its Crossfield project and \$1,112,400 from the sale of its 18.72% working interest in the Dollard area.

## Results of Operations

### Selected Annual Information

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

|                            | December 31, 2010 | December 31, 2009 | December 31, 2008 |
|----------------------------|-------------------|-------------------|-------------------|
|                            | \$                | \$                | \$                |
| Total oil and gas revenues | 368,080           | 600,452           | 1,560,485         |
| Loss for the year          | (2,509,386)       | (917,000)         | (679,072)         |
| Loss per share             | (0.05)            | (0.04)            | (0.03)            |
| Total assets               | 3,551,718         | 5,130,804         | 6,148,375         |
| Total liabilities          | 443,285           | 517,792           | 1,703,232         |
| Working capital (Deficit)  | 2,066,685         | 852,969           | (1,210,238)       |

### Oil and Gas

Oil and gas revenue was \$368,060 for the year ended December 31, 2010 compared to \$600,452 for 2009, a decrease of \$232,392. Production expenses for the year were lower at \$400,916 compared to \$766,914 in 2009. This decrease of \$365,998 is due to a decrease of \$196,517 in operating costs, and \$168,577 in depletion. There was net oil and gas loss of \$119,274 for the year ended December 31, 2010 compared to a net oil and gas loss of \$185,631 reported in 2009, a difference of \$342,578.

### Head Office - General and Administrative Expenses

General and administrative expenses totaled \$836,707 for the year ended December 31, 2010 compared with \$612,559 in 2009. The increase of \$224,148 is due to increases in administrative and office services of \$84,000, management fees of \$84,939, consulting fees of \$24,492, professional fees of \$33,328, filing and transfer agency fees of \$10,979, and amortization of \$1,724, however; decreases in amounts recorded for stock-based compensation of \$13,920, shareholder information of \$1,394 offset these increases slightly.

### Net Loss for the Period

Net loss for the period ended December 31, 2010 was \$2,509,386 compared with a loss of \$917,000 for the same period of 2009, a difference of \$1,592,386. Although the increase in general and administrative contributed to the increase in net loss for the year, the net loss is mainly attributable amounts recorded for loss on disposal of mineral properties of \$980,018 and loss on impairment of \$1,113,003, however; these losses were offset by a gain on corporate acquisition of \$323,551 and an unrealized gain on investments of \$525,285.

*Three months ended December 31, 2010 ("Q4-2010") compared with the three months ended December 31, 2009 ("Q4-2009").*

### Oil and Gas

Oil and gas revenue was \$26,407 for Q4-2010 compared to \$159,812 for Q4-2009, a decrease of \$133,405. The decrease in revenue is a result of the disposition of the Dollard area property. The production expenses for Q4-2009 were significantly lower at \$3,947 compared to \$66,410 in Q4-2009. All production expenses have decreased in the current quarter.

### Head Office - General and Administrative Expenses

General and administrative expenses totaled \$481,195 for Q4-2010 compared with \$301,544 in Q4-2009. The increase of \$179,651 consisted of increases in administrative, office services and premises of \$94,576 management fees of \$47,509, consulting fees of \$11,590, professional fees of \$17,855, filing and transfer agency fees of \$5,897, shareholder information of \$933 and amortization of \$1,289.

The Company saw an overall increase in general and administrative expenditures in the fourth quarter due to a higher level of corporate activity in connection with the closing of its corporate acquisition, however; the Company has eliminated non-essential contracts and undertaken cost-cutting measures.

### Net loss for the Period

There was a net loss of \$1,917,275 in Q4-2010 compared with a net loss of \$334,659 in Q4-2009. Although the increase in general and administrative contributed to the increase in net loss for the year, the net loss is mainly attributable amounts recorded for loss on disposal of mineral properties of \$980,018 and loss on impairment of \$1,113,003, however; these losses were offset by a gain on corporate acquisition of \$323,551 and an unrealized gain on investments of \$525,285. Although oil and gas revenues have decreased significantly, the Company has also seen a reduction in production expenses and royalty expenses.

### Summary of Quarterly Results

| Period Ended  | 2010               | 2010                | 2010               | 2010               | 2009               | 2009                | 2009               | 2009               |
|---|--------------------|---------------------|--------------------|--------------------|--------------------|---------------------|--------------------|--------------------|
|   | Dec 31<br>Q4<br>\$ | Sept 31<br>Q3<br>\$ | Jun 30<br>Q2<br>\$ | Mar 31<br>Q1<br>\$ | Dec 31<br>Q4<br>\$ | Sept 31<br>Q3<br>\$ | Jun 30<br>Q2<br>\$ | Mar 30<br>Q1<br>\$ |
| Net oil and gas income (loss)   | 116,198            | (54,950)            | (76,901)           | (103,621)          | (39,950)           | (106,167)           | (57,902)           | (100,886)          |
| Discontinued operations   | -                  | -                   | -                  | -                  | -                  | -                   | -                  | -                  |
| Income (loss) for the period  | (1,917,275)        | (192,331)           | (191,319)          | (208,461)          | (334,659)          | (227,187)           | (147,212)          | (202,942)          |
| Basic and diluted income (loss) per share after discontinued operations | (0.05)             | (0.01)              | (0.01)             | (0.01)             | (0.01)             | (0.01)              | (0.01)             | (0.03)             |

### Liquidity

At December 31, 2010 the Company had current assets of \$2,449,796, of which \$1,127,719 (2009 - \$839,811) was comprised of cash. Current liabilities totaled \$383,111 and consisted mainly of trade payables relating to property operating and well workover costs.

Total working capital as at December 31, 2010 was \$2,066,685 (2009 -\$852,969). The Company continues to explore and identify other financial opportunities in order to address its ongoing financial requirements.

**Capital Resources**

The Company plans to continue its participation in the projects discussed above. The Company expects to finance operating expenditures through existing production revenue and future projects by way of private placements. In addition, the Company may make further oil and gas expenditures on new properties as finances permit.

**Off-Balance Sheet Arrangements**

The Company has no off-balance sheet arrangements.

**Related Party Transactions**

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

Management and consulting fees totalling \$204,500 (2009 - \$180,773) were paid to Directors and Officers and/or their private companies; and rent expense totalling \$22,857 (2009 - \$19,130) was paid to a company whose management is related to a Director of Berkley.

Administrative services, office supplies and accounting charges totalling \$46,754 (2009 - \$67,143) were paid to Oniva International Services Corporation ("Oniva"), a private company owned by public companies having common directors. \$11,974 remained payable at year-end (2009 - \$34,296).

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

**Disclosure of Management Compensation**

During the period, \$102,500 (2009 - \$132,000) was paid to the President and C.E.O. for services as director and officer of the Company, \$30,000 (2009 - \$30,000) was paid to the former V.P. Finance for services as director and officer of the Company, \$30,000 (2009 - \$52,500) was paid to the V.P. Operations for services as director and officer of the Company and \$42,000 (2009 - \$42,000) was paid to the Corporate Secretary and Chief Financial Officer for services as an officer of the Company.

**International Financial Reporting Standards**

In January 2006, the Canadian Accounting Standards Board (AcSB) adopted a strategic plan for the direction of accounting standards in Canada. In February 2008, the AcSB confirmed that Canadian publicly accountable entities will be required to report under International Financial Reporting Standards (IFRS), which will replace Canadian GAAP for years beginning on or after January 1, 2011.

The project to convert to IFRS is being managed by members of the Company's Audit Committee and its Chief Financial Officer.

Based on the work completed to date, the Company expects the greatest potential impact of IFRS adoption to be within the following areas:

### 1. First-time adoption of IFRS (“IFRS 1”)

IFRS 1 provides the framework for the first-time adoption of IFRS and outlines that, in general, the Company must apply the principles under IFRS retrospectively and that adjustments arising on conversion to IFRS shall be directly recognized in retained earnings. However, IFRS 1 also provides a number of optional exemptions from retrospective application of certain IFRS requirements as well as mandatory exceptions which prohibit retrospective application of standards. The following optional exemptions have been identified as being applicable to the Company:

- deemed cost of oil and gas full cost assets;
- deemed cost of exploration and evaluation assets and assets in the development and production phase;
- application date of IFRS 2 *Share-based Payment*;
- retrospective application of IFRS 3 *Business Combinations*;
- measuring of and accounting for decommissioning liabilities;
- assessment of arrangements containing a lease; and,

The Company is currently assessing the impact of applying these exemptions to its financial statements. The remaining elective exemptions have limited or no applicability to the Company.

### 2. Exploration for and evaluation of mineral resources

Under IFRS, the Company must develop a separate accounting policy for costs related to the pre-exploration phase, exploration and evaluation phase and the development and production phase. Existing oil and gas assets must be separated into these three categories and the Company is only allowed to continue using its current accounting policy for the exploration and evaluation phase. In addition, capitalized exploration and evaluation costs must be classified as tangible or intangible according to nature of the expenditure.

The Company is currently in the process of assessing the above policy choices.

### 3. Property, plant and equipment

Canadian GAAP requires the Company to breakdown its assets into significant components only when practicable. Under IAS 16 *Property, Plant and Equipment*, the Company is explicitly required to allocate the amount initially recognized in respect of an item of property, plant and equipment (“PP&E”) to its significant components and depreciate separately each of these components. Where a significant component has a useful life and depreciation method that is the same as the useful life and depreciation method of another significant component of the same item of PP&E, such components may be grouped together in determining the depreciation charge.

The Company will need to reassess PP&E and determine whether they are appropriately separated into its significant component parts. This may result in additional effort in identifying significant components, allocating cost to these components and adjusting previously recorded depreciation. Modification of the current fixed assets register may be required to accommodate recording components of PP&E and depreciation calculations.



#### 4. Impairment of assets

Canadian GAAP impairment testing involves two steps, the first of which compares the asset's carrying value with undiscounted future cash flows to determine whether impairment exists. If the carrying value exceeds the amount recoverable on an undiscounted basis, then the cash flows are discounted to calculate the amount of the impairment and the carrying value is written down to estimated fair value.

PP&E and intangibles, including goodwill, are tested for impairment in accordance with IAS 36 – *Impairment of Assets* ("IAS 36"). IAS 36 requires that assets, other than goodwill and indefinite-life intangibles, be subjected to an impairment test if there are indicators of impairment. For goodwill and indefinite-life intangibles, IAS 36 requires that the Company perform impairment tests on an annual basis.

Under IFRS an asset is impaired when the recoverable amount of that asset is less than the carrying amount. If there is any indication that an asset may be impaired, the recoverable amount should be estimated for individual assets. The recoverable amount is defined as the higher of the fair value less costs to sell and the value-in-use. Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's-length transaction between knowledgeable and willing parties. The value in use is the present value of the future cash flows (i.e. discounted cash flows) expected to be derived from an asset.

If it is not possible to estimate the recoverable amount for the individual asset other than goodwill, the Company must determine the recoverable amount for the cash-generating unit (CGU) to which that asset can be allocated. A CGU is the smallest group of assets that generates cash inflows largely independent of other assets or groups of assets. Management is therefore required to determine all of the CGUs of the Company.

Impairment will be recognized more frequently under IFRS as Canadian GAAP does not require the discounting of cash flows when assessing the recoverability of an asset's carrying value. However, IAS 36 requires the reversal of an impairment loss for an asset, other than goodwill, where there is an indication that circumstances have changed and that the impairment loss no longer exists or may have decreased. Under Canadian GAAP, impairments were not reversed.

#### 5. Income taxes

IAS 12 is similar to Canadian GAAP in that the Company has to recognize deferred (future) taxes on temporary differences between the carrying value of assets and liabilities and their tax basis. The adoption of IFRS will have a significant impact on the Company's tax accounting in the period of adoption and in subsequent periods for new temporary differences arising on the conversion to IFRS as a result of changes in carrying values of assets, differences in depreciation expense, residual values, capitalization of borrowing and direct costs and impairment charges and reversals.

#### 6. Share-based Payments

*IFRS 2 Share-based Payments* ("IFRS 2") requires that an estimation of forfeitures must be factored into the calculation of the stock-based option compensation expense. In addition, when an entity enters into a share-based payment transaction that vests in instalments (often referred to as graded vesting), IFRS 2 requires that each tranche within the award be treated as a separate award. Compensation cost for each tranche is recognized over its own distinct vesting period. The Company

will therefore have to update its stock option calculations in order to meet the requirements of IFRS 2. Furthermore, the adoption of IFRS 2 could impact the systems and processes that the Company has in place to track stock options and related information

#### **7. Asset retirement obligation (“ARO”)**

Differences exist between Canadian GAAP and IFRS with respect to the measurement of asset retirement obligations. Specifically, under Canadian GAAP asset retirement obligations were measured at fair value using a credit-adjusted risk-free discount rate. Under IFRS, asset retirement obligations are measured using the best estimate of the expenditure required to settle the obligation, and are discounted using a risk-free rate. This will likely result in an increase in Berkley’s asset retirement obligation recorded on the consolidated balance sheet.

In addition, IFRS requires changes to the timing of cash flows, estimated amounts of cash flows and discount rates to be accounted for prospectively. Canadian GAAP is similar; however, changes to the discount rates for ARO are only applied to the incremental changes in the liability and not the entire liability.

The Company is currently in the process of assessing the impact on information technology and controls over financial reporting and disclosure. The Company will complete the assessment of the impact to investor relations and external communication plans once the evaluation of the impact to the consolidated financial statements is complete.

In addition to the accounting policy differences, the Company’s transition to IFRS will impact the internal controls over financial reporting, the disclosure controls and procedures and information technology systems as follows:

**Internal controls over financial reporting:** Based on the accounting policies under IFRS, the Company has assessed whether additional controls or changes in procedures are required. These changes are not considered to be significant.

**Disclosure controls and procedures:** Throughout the transition process, the Company will assess stakeholder’s information requirements and will ensure that adequate and timely information is provided while ensuring the Company maintains its due process regarding information that is disclosed.

**IT Systems:** The Company has assessed the readiness of its accounting software and will continue to assess other system requirements that may be needed in order to perform ongoing calculations and analysis under IFRS. These changes are not considered to be significant.



### Outstanding Share Data

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

The following is a summary of shares issued and outstanding as at December 31, 2010 and April 28, 2011:

|  | April 28, 2011   |               | December 31, 2009 |               |
|--|------------------|---------------|-------------------|---------------|
|  | Number of Shares | Amount        | Number of Shares  | Amount        |
| <b>Issued and fully paid:</b>            |                  |               |                   |               |
| Balance, beginning of period             | 46,139,482       | \$ 13,272,763 | 45,066,042        | \$ 13,219,091 |
| Issued in the year for cash:             |                  |               |                   |               |
| Pursuant to private placements:          |                  |               |                   |               |
| - non-flow-through for cash              | -                | -             | -                 | -             |
| Shares for debt                          | -                | -             | 1,073,440         | 53,672        |
| Share issuance costs                     | -                | -             | -                 | -             |
| Fair value of private placement Warrants | -                | -             | -                 | -             |
| Fair value of expired warrants           | -                | -             | -                 | -             |
| Balance, end of period                   | 46,139,482       | \$ 13,272,763 | 46,139,482        | \$ 13,272,763 |

The following is a summary of stock options outstanding as at December 31, 2010 and April 28, 2011:

| Expiry Date        | Exercise Price Per Share | Number of Shares Remaining Subject to Options (December 31, 2010) | Number of Shares Remaining Subject to Options (April 28, 2011) |
|--------------------|--------------------------|---|--|
| September 21, 2011 | \$0.56                   | 440,000   | 440,000  |
| July 4, 2012       | \$0.55                   | 350,000   | 350,000  |
|                    |                          | <b>790,000</b>  | <b>790,000</b>   |

The following is a summary of share purchase warrants outstanding as at December 31, 2010 and April 28, 2011:

| <b>Expiry Date</b> | <b>Exercise Price Per Share</b> | <b>Number of Shares Remaining Subject to Warrants (December 31, 2010)</b> | <b>Number of Shares Remaining Subject to Warrants (April 28, 2011)</b> |
|--------------------|---------------------------------|---|--|
| December 16, 2011  | \$0.10                          | 21,370,000  | 21,370,000   |
|                    |                                 | <b>21,370,000</b>   | <b>21,370,000</b>  |

### Disclosure Controls and Procedures

The Chief Executive Officer and the Chief Financial Officer of the Company are responsible for evaluating the effectiveness of the Company's disclosure controls and procedures and have concluded, based on our evaluation, that they are effective as at December 31, 2010 to ensure that information required to be disclosed in reports filed or submitted under Canadian securities legislation is recorded, processed, summarized and reported within the time period specified in those rules and regulations.

### Internal Controls over Financial Reporting

The Chief Executive Officer and the Chief Financial Officer of the Company are responsible for designing internal controls over financial reporting, or causing them to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. The Company assessed the design of the internal controls over financial reporting as at April 28, 2011 and concluded that there are material weaknesses in internal controls over financial reporting, which are as follows:

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

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

There have been no changes in the Company's internal controls over financial reporting that occurred during the year ended December 31, 2010 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

### Additional Information

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