BERKLEY RESOURCES INC.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the Three and Six Months Ended June 30, 2011 and 2010

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Notice of No Auditor Review of Interim Financial Statements

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NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

In accordance with National Instrument 51-102, Part 4, subsection 4.3(3) released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed these unaudited interim financial statements for the three and six months ended June 30, 2011 and 2010.

BERKLEY RESOURCES INC.
CONDENSED INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(*unaudited*)

	As at June 30, 2011	As at December 31, 2010 (note 17)	As at January 1, 2010 (note 17)
ASSETS			
Current assets			
Cash and cash equivalents	**$ 1,083,293**	$ 1,127,719	$ 839,811
Trade and other receivables	**117,175**	84,052	321,015
Marketable securities (note 5)	**331,093**	1,157,016	-
Deposits	**62,178**	81,009	65,227
Total current assets	**1,593,739**	2,449,796	1,226,053
Investment (note 6)	**2,100,552**	400,000	-
Exploration and evaluation properties (note 9)	**379,129**	379,129	379,129
Petroleum and natural gas interests (note 8)	**267,274**	197,656	1,968,556
Other property and equipment (note 10)	**5,056**	8,973	1,207
Total non-current assets	**2,752,011**	985,758	2,348,892
	$ 4,345,750	$ 3,435,554	$ 3,574,945
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	**$ 312,661**	$ 383,111	$ 373,083
Due to related parties	**4,430**	-	-
Total current liabilities	**317,091**	383,111	373,083
Decommissioning liability (note 11)	**77,920**	75,596	176,540
	395,011	458,707	549,623
SHAREHOLDERS' EQUITY			
Share Capital (note 12)	**14,848,154**	14,848,154	14,794,482
Non-controlling interest	**1,146,157**	951,265	-
Contributed Surplus	**1,733,013**	1,733,013	1,733,013
Deficit	**(15,477,137)**	(14,555,585)	(13,502,173)
Accumulated other comprehensive income	**1,700,552**	-	-
Total shareholders' equity	**3,950,739**	2,976,847	3,025,322
	$ 4,345,750	$ 3,435,554	$ 3,574,945

Going concern (note 1)

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

BERKLEY RESOURCES INC.
CONDENSED INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS
(*unaudited*)

	Three months ended June 30		Six months ended June 30	
	2011	2010 (note 17)	**2011**	2010 (note 17)
Oil and gas revenue				
Petroleum and natural gas sales	$ **13,954**	117,422	$ **29,627**	222,921
Royalty expense	**(267)**	(28,841)	**(564)**	(51,895)
Net oil and gas revenue	**13,687**	88,581	**29,063**	171,026
Oil and gas production expenses				
Operating costs	**4,372**	36,351	**8,319**	96,126
Depletion and depreciation	**7,082**	35,178	**10,124**	60,259
	11,454	71,529	**18,443**	156,385
Net oil and gas income	**2,233**	17,052	**10,620**	14,641
General and administrative				
Management fees	**141,026**	45,000	**234,931**	101,000
Professional fees	**38,455**	18,220	**80,452**	21,032
Consulting fees	**6,031**	15,055	**47,345**	31,917
Administrative, office services and premises	**112,456**	29,139	**146,587**	48,713
Depreciation (note 10)	**453**	205	**3,917**	409
Shareholder information	**10,473**	205	**13,611**	2,268
Filing and transfer agent fees	**5,910**	5,467	**7,770**	12,793
	314,804	113,291	**534,613**	218,132
Other (income) and expenses				
Unrealized loss on marketable securities	**71,526**	-	**230,619**	-
Interest expense	**-**	(1,127)	**-**	(1,127)
Other income	**(27,952)**	-	**(27,952)**	-
Loss attributed to non-controlling interest	**67,375**	-	**194,892**	-
	110,949	(1,127)	**397,559**	(1,127)
Loss for the period	**(423,520)**	(97,366)	**(921,552)**	(204,618)
Other comprehensive (income) loss				
Unrealized gain on investment (note 6)	**(1,700,552)**	-	**(1,700,552)**	-
Other comprehensive income for the year	**(1,700,552)**	-	**(1,700,552)**	-
Total comprehensive income (loss) for the period attributable to common shareholders	**1,277,032**	(97,366)	**779,000**	(204,618)
Basic and diluted net loss per share	**(0.01)**	(0.00)	**(0.02)**	(0.00)
Weighted average number of shares outstanding for the period	**46,139,492**	45,443,515	**46,139,492**	45,254,779

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

BERKLEY RESOURCES INC.
CONDENSED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Contributed surplus	Share Capital	Deficit	Non-controlling interest	Accumulated other comprehensive income	Total
Balance as at January 1, 2011	$ 1,733,013	14,848,154	$(14,555,585)	-	-	$ 2,025,582
Net loss	-	-	(921,552)	-	-	(921,552)
Unrealized gain on investment	-	-	-	-	1,700,552	1,700,552
Non-controlling interest	-	-	-	1,146,157	-	1,146,157
Balance as at June 30, 2011	$ 1,733,013	$ 14,848,154	$(15,477,137)	$ 1,146,157	$ 1,700,552	$ 3,950,739

	Contributed surplus	Share Capital	Deficit	Total
Balance as at January 1, 2010 (note 17)	$ 1,733,013	$ 14,794,482	$ (13,502,173)	$ 3,025,322
Issue of share capital	-	53,672	-	53,672
Total comprehensive loss for the period	-	-	(204,618)	(204,618)
Balance as at June 30, 2010 (note 17)	$ 1,733,013	$ 14,848,154	$ (13,706,791)	$ 2,874,376

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

BERKLEY RESOURCES INC.
CONDENSED INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS
(*unaudited*)

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	**2011**	2010
Cash provided by (used in) from continuing operations				
Operating activities				
Loss for the period	**$ (423,520)**	$ (97,366)	**(921,552)**	(204,618)
Items not requiring cash in the period				
Depreciation, depletion and accretion	**7,535**	35,383	**14,040**	60,668
Non-controlling interest	**67,375**	-	**194,892**	-
Unrealized loss on investments	**71,526**	-	**230,619**	-
	(277,084)	(61,983)	**(482,001)**	(143,950)
Change in non-cash working capital (note 15)	**118,407**	325,061	**(80,312)**	416,620
	(158,677)	263,078	**(562,313)**	272,670
Investing activities				
Proceeds on disposition of oil and gas properties	**-**	(509,397)	**-**	(473,132)
Purchase of fixed assets	**-**	(5,702)	**-**	(5,702)
Purchase of oil and gas properties	**(52,248)**		**(69,873)**	-
Proceeds on sale of marketable securities	**-**	-	**587,760**	-
	(52,248)	(515,099)	**517,887**	(478,834)
Financing Activities				
Issuance of shares for settlement of debt	**-**	53,672	**-**	53,672
	-	53,672	**-**	53,672
Increase in cash and cash equivalents	**(210,925)**	(198,349)	**(44,426)**	(152,492)
Cash and cash equivalents, beginning of period	**1,294,218**	885,668	**1,127,719**	839,811
Cash and cash equivalents, end of period	**$ 1,083,293**	$ 687,319	**1,083,293**	687,319

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

1. Nature of Operations and Going Concern

Berkley Resources Inc. 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. Berkley is in the business of acquisition, exploration, development and production from petroleum and natural gas interests in Alberta, Canada. The address of the registered office is 900, 570 Granville Street, Vancouver, British Columbia, V6C 3P1.

On July 8, 2010, Berkley acquired a 53% interest in American Uranium Corporation ("AUC"). The results of American Uranium Corporation's operations have been included in these condensed interim consolidated financial statements since that date. American Uranium Corporation is an exploration-stage company engaged in the acquisition and exploration of mineral property interests in the United States.

These interim consolidated financial statements include both Berkley and AUC (hereinafter together referred to as the "Company" or "Berkley") and have been prepared on the basis of accounting principles applicable to a going concern which assumes that the Company will continue in operation for the foreseeable future 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 a net loss and comprehensive loss for the six month period of $921,552 (June 30, 2010 - $204,618) and accumulated losses of $15,477,137 (December 31, 2010 - $14,555,585). As at June 30, 2011, Berkley had working capital of $1,198,728 (December 31, 2010 - $1,991,089).

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 Berkley have 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 condensed interim consolidated financial statements, then adjustments would be necessary in the carrying values of assets and liabilities, reported revenues and expenses, and the statement of financial position classifications used.

The condensed interim consolidated financial statements were authorized for issue on August 29, 2011 by the directors of the Company.

The registered office of Berkley Resources is Suite 900, Granville Street Vancouver, BC V6C 3P1.

2. Basis of Preparation

a) Statement of compliance:

The Company's condensed interim consolidated financial statements have been prepared in accordance with IAS 34, interim financing reporting ("IAS 34") as issued by the International Accounting Standards Board ("IASB").

Berkley adopted IFRS in accordance with IFRS 1 First-time Adoption of International Financial Reporting Standards ("IFRS 1") with a transition date to IFRS of January 1, 2010. Consequently the comparative figures for 2010 and the Company's statement of financial position as at January 1, 2010 have been restated from accounting principles generally accepted in Canada ("Canadian GAAP") to comply with IFRS.

2. Basis of Preparation *(continued)*

The condensed interim consolidated financial statements should be read in conjunction with Berkley's Canadian GAAP annual consolidated financial statements for the year ended December 31, 2010 and the quarterly condensed consolidated interim financial statements for the period ended March 31, 2011. Notes 16 and 17 disclose information on the transition to IFRS effective for the year ended December 31, 2010 that is material to the understanding of these condensed interim consolidated financial statements.

The reconciliations to IFRS from the previously published Canadian GAAP consolidated financial statements are summarized in note 17. In addition, IFRS 1 allows certain exemptions from retrospective application of IFRS in the opening statement of financial position. Where these have been used they are explained in note 16.

b) Basis of measurement:

These condensed interim consolidated financial statements have been prepared on a historical cost basis, except for the revaluation of certain financial assets and financial liabilities to fair value, including derivative instruments.

c) Functional and presentation currency:

These condensed interim consolidated financial statements are presented in Canadian dollars, which is the Company's functional and reporting currency.

d) Use of estimates and judgments:

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that may affect the reported amounts of assets, liabilities, income and expenses and disclosures of contingencies and commitments. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The key sources of estimation uncertainty that have a significant risk of causing material adjustment to the amounts recognized in the condensed interim consolidated financial statements are:

- *Impairment of non-financial assets*

  Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

2. **Basis of Preparation** *(continued)*

- *Share-based payment transactions*

  The Company measures the cost of share-based payment transactions with employees by reference to the fair value of the equity instruments. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining and making assumptions about the most appropriate inputs to the valuation model including the expected life, volatility and dividend yield of the share option.

- *Income taxes*
  Provisions for taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax-related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

- *Useful lives of property and equipment*

  The Company estimates the useful lives of property and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the relevant assets. In addition, the estimation of the useful lives of property and equipment are based on internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in the estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of the property and equipment would increase the recorded expenses and decrease the non-current assets.

- *Allowance for doubtful debts*

  The Company makes allowances for doubtful debts based on an assessment of the recoverability of receivables. Allowances are applied to receivables where events or changes in circumstances indicate that the carrying amounts may not be recoverable. Management specifically analysed historical bad debts, customer concentrations, customer creditworthiness, current economic trends and changes in customer payment terms when making a judgement to evaluate the adequacy of the allowance for doubtful debts of receivables. Where the expectation is different from the original estimate, such difference will impact the carrying value of receivables.

- *Fair value of financial instruments*
  The estimated fair value of financial assets and liabilities, by their very nature, are subject to measurement uncertainty. Trade and other receivables are stated after evaluation as to their collectability and an appropriate allowance for doubtful accounts is provided where considered necessary.

- *Decommissioning liabilities*
  Amounts recorded for decommissioning liabilities and the related accretion expense requires the use of estimates with respect to the amount and timing of asset retirements, site remediation and related cash flows.

2. Basis of Preparation *(continued)*

- *Depletion, depreciation, amortization and impairment*
  Amounts recorded for depreciation, depletion and amortization and amounts used for impairment calculations are based on estimates of natural gas and liquids reserves. By their nature, the estimates of reserves, including the estimates of future prices, costs, discount rates and the related future cash flows, are subject to measurement uncertainty.

Estimates and underlying assumptions are reviewed by management on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and any future years affected.

3. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these condensed interim consolidated financial statements, and have been applied consistently by Berkley and its subsidiary.

a) Basis of consolidation

The condensed interim consolidated financial statements include the accounts of Berkley and its subsidiary, AUC. The subsidiary is fully consolidated from the date of acquisition, being the date on which Berkley obtained control, and continues to be consolidated until the date that such control ceases. The financial statements of the subsidiary are prepared for the same reporting period as the parent, using consistent accounting policies. All intercompany balances and transactions are eliminated in full upon consolidation.

b) Financial instruments

(i) Non-derivative financial instruments:

Non-derivative financial instruments comprise cash and cash equivalents, trade and other receivables, marketable securities, investment in RepliCel, deposits and trade and other payables. Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

Cash and cash equivalents:
Cash and cash equivalents comprise cash on hand with original maturities of three months or less that are readily convertible into cash and which are subject to insignificant risk of changes in value. The balances at June 30, 2011, December 31, 2010 and January 1, 2010 consisted entirely of cash.

Loans and receivables:
Loans and receivables are initially recognized at fair value plus transaction costs and subsequently carried at amortized cost using the effective interest method.

A provision for impairment of trade and other receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in the consolidated statement of comprehensive loss. When a trade and other receivables is uncollectible, it is written off against the allowance account for trade and other receivables.

3. **Significant Accounting Policies** *(continued)*

Financial assets at fair value through profit or loss:
An instrument is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's risk management and investment strategy. Upon initial recognition, attributable transaction costs are recognized in earnings when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognized in earnings. The Company has designated cash and cash equivalents and marketable securities at fair value.

Other financial liabilities:
Other financial liabilities include accounts payable and accrued liabilities, and are recognized initially at fair value and subsequently measured at amortized cost using the effective interest rate method.

c) Revenue recognition

Revenue from the sale of petroleum and natural gas is recorded when title passes to an external party and is based on volumes delivered to customers at contractual delivery points, and rates and collectability are reasonably assured. The costs associated with the delivery, including operating and maintenance costs, transportation and production-based royalty expenses, are recognized during the same period in which the related revenue is earned and recorded.

d) Petroleum and natural gas interests, exploration and evaluation and other property and equipment

Petroleum and natural gas interests

Petroleum and natural gas interests (P&NG) are carried at cost, less accumulated depletion, depreciation and accumulated impairment losses. The cost of an item of P&NG consists of the purchase price, any costs directly attributable to bringing the asset into the location and condition necessary for its intended use, a discounted current estimate of the decommissioning costs and borrowing costs for qualifying assets.

Oil and gas capitalized costs are depleted using the unit-of-production method. Depletion is calculated using the ratio of production in the period to the remaining total proved and probable reserves before royalties, taking into account future development costs prior to inflation necessary to bring those reserves into production. These estimates are evaluated and reported on by independent reserve engineers annually. Proven reserves are estimated using independent reserve engineer reports and represent the estimated quantities of crude oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible.

Changes in estimates such as quantities of proved and probable reserves that affect unit-of-production calculations are applied on a prospective basis.

An item of P&NG is derecognized upon disposal or is impaired when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss on disposal of the asset, determined as the difference between the net proceeds and the carrying amount of the asset, is recognized in the statement of comprehensive loss in the period incurred.

The carrying amounts of property and equipment are reviewed each reporting period for impairment when indicators of such impairment exist. If indicators exist, the assets are tested for impairment under IAS 36.

3. Significant Accounting Policies *(continued)*

Exploration and evaluation assets

Exploration and evaluation (E&E) assets include land acquisition costs, geological and geophysical costs, exploratory drilling, directly attributable expenses and activities relating to evaluating the technical feasibility and commercial viability of our resources. All other expenditures are recognized in earnings as incurred. Such capitalized oil and natural gas interests generally represent costs incurred in developing proved and/or probable reserves and bringing in or enhancing production from such reserves, and are accumulated on a field or geotechnical area basis. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in earnings as incurred.

E&E costs are capitalized and are not depleted until such time as the exploration phase is complete and technical feasibility and commercial viability of extracting the mineral resource has been demonstrated. Once demonstrated, E&E assets are tested for impairment in accordance with IAS 36 "Impairment of Assets" and transferred to P&NG, and further development costs are capitalized to P&NG. E&E assets are also tested for impairment in accordance with IAS 36 if facts and circumstances suggest that the carrying amount exceeds the recoverable amount. If it is determined that technical feasibility and commercial viability has not been achieved in relation to a property, the resulting loss is included in the consolidated statement of comprehensive loss.

3.

Other property and equipment

Other property and equipment consists of computer equipment and furniture, fixtures and equipment that are amortized at the following rates per annum under the declining balance method:

Computer equipment	30%
Furniture, fixtures and equipment	20%

e) Impairment of assets

Non-financial assets

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" or "CGU"). The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs to sell.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Value in use is generally computed by reference to the present value of the future cash flows expected to be derived from production of proven and probable reserves.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in earnings. Impairment losses recognized in respect of CGU's are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

3. Significant Accounting Policies *(continued)*

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation or amortization, if no impairment loss had been recognized. A reversal of an impairment loss is recognized immediately in profit or loss.

Financial assets

Financial assets are assessed at each reporting date in order to determine whether objective evidence exists that the assets are impaired as a result of one or more events which have had a negative effect on the estimated future cash flows of the asset.

If there is objective evidence that a financial asset has become impaired, the amount of the impairment loss is calculated as the difference between its carrying amount and the present value of the estimated future cash flows from the asset discounted at its original effective interest rate. Impairment losses are recorded in earnings. If the amount of the impairment loss decreases in a subsequent period and the decrease can be objectively related to an event occurring after the impairment was recognized, the impairment loss is reversed up to the original carrying value of the asset. Any reversal is recognized in earnings.

f) Flow-through shares

Expenditure deductions for income tax purposes related to exploratory activities funded by flow-through equity instruments are renounced to investors in accordance with income tax legislation. The proceeds from issuance are allocated between the offering of shares and the sale of tax benefits. The allocation is made based on the difference between the quoted price of the existing shares and the amount the investor pays for the shares. A liability is recognized for this difference. The liability is reversed when tax benefits are renounced and a deferred tax liability is recognized at that time. Income tax expense is the difference between the amount of the deferred tax liability and the liability recognized on issuance.

g) Income taxes

Income tax expense is comprised of current and deferred tax expenses. Income tax expense is recognized in earnings except to the extent that if the income tax expense related to items recognized directly in equity, the income tax expense would also be recognized in equity.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the liability method. Under this method, deferred tax assets and liabilities are recognized in relation to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

3. Significant Accounting Policies *(continued)*

h) Earnings (loss) per share

Basic earnings (loss) per share is computed using the weighted average number of common shares outstanding during the period. The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on earnings per share is calculated presuming the exercise of outstanding options, warrants and similar instruments. It assumes that proceeds received from the exercise of stock options and warrants would be used to repurchase common shares at the average market price during the period. However, the calculation of diluted loss per share excludes the effects of various conversions and exercise of options and warrants that would be anti-dilutive.

i) Share-based payments

The Company uses the Black-Scholes pricing model to estimate the fair value of share-based payments at the grant date. The expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are satisfied. For awards with graded vesting, the fair value of each tranche is recognized over its respective vesting period.

No expense is recognized for awards that do not ultimately vest, except for equity-settled awards where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

j) Decommissioning liability

The Company's activities give rise to dismantling, decommissioning and site disturbance re-mediation activities. A provision is made for the estimated cost of site restoration and capitalized in the relevant asset category.

Decommissioning liabilities are measured at the present value of management's best estimate of expenditure required to settle the present obligation at the statement of financial position date. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as finance costs whereas increases/decreases due to changes in the estimated future cash flows are capitalized. Actual costs incurred upon settlement of the asset retirement obligations are charged against the provision.

4. Recent Accounting Pronouncements

(i) IFRS 9, 'Financial Instruments' was issued in November 2009 as the first step in its project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. IFRS 9 introduces new requirements for classifying and measuring financial assets that must be applied starting January 1, 2013, with early adoption permitted. The IASB intends to expand IFRS 9 during the intervening period to add new requirements for classifying and measuring financial liabilities, de-recognition of financial instruments, impairment and hedge accounting. Berkley has not yet assessed the impact of the standard and has decided not to adopt the standard early.

(ii) IFRS 10, 'Consolidated Financial Statements' was issued in May 2011 and will supersede the consolidation requirements in SIC-12 'Consolidation – Special Purpose Entities' and IAS 27 'Consolidated and Separate Financial Statements' effective for annual periods beginning on or after January 1, 2013, with early application permitted. IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard also provides additional guidance to assist in the determination of control where this is difficult to assess. The Company is currently assessing the impact of this standard.

(iii) IFRS 11, 'Joint Arrangements' was issued in May 2011 and will supersede existing IAS 31, 'Joint Ventures' effective for annual periods beginning on or after January 1, 2013, with early application permitted. IFRS 11 provides for the accounting of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form (as is currently the case). The standard also eliminates the option to account for jointly controlled entities using the proportionate consolidation method. The Company is currently assessing the impact of this standard.

(iv) IFRS 12, 'Disclosure of Interests in Other Entities' was issued in May 2011 and is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. IFRS 12 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. The Company is currently assessing the impact of this standard.

(v) IFRS 13, 'Fair Value Measurement' was issued in May 2011 and sets out in a single IFRS a framework for measuring fair value. IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This definition of fair value emphasizes that fair value is a market-based measurement, not an entity-specific measurement. In addition, IFRS 13 also requires specific disclosures about fair value measurement. IFRS 13 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. The Company is currently assessing the impact of this standard.

5. Financial instruments and financial risk management

Fair values

Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgement, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values. At June 30, 2011, the Company's financial instruments include cash and cash equivalents, trade and other receivables, marketable securities, investment in RepliCel and accounts payable and accrued liabilities. The fair values of these financial instruments approximate their carrying values due to their short-term maturity.

Fair value represents the price at which a financial instrument could be exchanged in an orderly market, in an arm's length transaction between knowledgeable and willing parties who are under no compulsion to act.

Berkley classifies the fair value of the financial instruments according to the following hierarchy based on the amount of observable inputs used to value the instrument:

- Level 1 - inputs to the valuation methodology are quoted prices for identical assets or liabilities in active markets;
- Level 2 - inputs to the valuation methodology included quoted prices for identical assets or liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace; and,
- Level 3 - inputs to the valuation methodology are not based on observable market data.

Cash and cash equivalents, marketable securities and investment in RepliCel are recorded based on Level 1 of the fair-value hierarchy. Trade and other receivables and accounts payable are recorded based on Level 3 of the fair-value hierarchy.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities. The Company has exposure to credit risk, liquidity risk and market risk as a result of its use of financial instruments. This note presents information about the Company's exposure to each of the above risks and the Company's objectives, policies and processes for measuring and managing these risks. Further quantitative disclosures are included throughout these condensed interim consolidated financial statements. The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has implemented and monitors compliance with the risk management policies as set out herein:

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. A substantial portion of the Company's trade and other receivables are with natural gas and liquids marketers and joint venture partners in the oil and gas industry and are subject to normal industry credit risks. As at June 30, 2011, the maximum credit exposure is the carrying amount of the trade and other receivables of $117,175 (December 31, 2010 – $84,052, January 1, 2010 – $321,015). As at June 30, 2011, the Company's receivables consisted of $102,039 from joint venture partners and other trade receivables (December 31, 2010 - $72,428, January 1, 2010 - $305,895) and $15,136 of revenue receivable from petroleum and natural gas marketers (December 31, 2010 - $11,624, January 1, 2010 - $15,120).

5. Financial instruments and financial risk management *(continued)*

The Company did not provide for any doubtful accounts nor was it required to write-off any receivables during the six months ended June 30, 2011 (December 31, 2010 - $143,000, January 1, 2010 - $nil). The Company would only choose to write-off a receivable balance (as opposed to providing an allowance) after all reasonable avenues of collection had been exhausted.

The Company considers its trade and other receivables to be aged as follows:

		June 30, 2011		December 31, 2010 (note 17)		January 1, 2010 (note 17)
Not past due or impaired	$	**25,569**	$	9,720	$	215,429
Past due by less than 90 days		**35,047**		38,640		53,942
Past due by more than 90 days		**56,559**		35,692		51,644
	$	**117,175**	$	84,052	$	321,015

Liquidity risk

Liquidity risk is the risk that the Company will incur difficulties meeting its financial obligations as they are due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions without incurring unacceptable losses or risking harm to the Company's reputation.

The Company's operating cash requirements are continuously monitored by management. As factors impacting cash requirements change, liquidity risks may necessitate the need for the Company to raise capital by issuing equity. The Company also mitigates liquidity risk by maintaining an insurance program to minimize exposure to insurable losses.

Market risk

The significant market risk exposures affecting the financial instruments held by the Company are those related to foreign currency exchange rates and commodity price risk which are explained as follows:

i. Currency risk

Foreign currency exchange rate risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in foreign exchange rates. The Company enters into transactions denominated in United States currency for which the related expenses and accounts payable balances are subject to exchange rate fluctuations. As at June 30, 2011, the following items are denominated in United States currency:

	June 30, 2011 CAD$	December 31, 2010 CAD$	January 1, 2010 CAD$
Cash and cash equivalents	**1,237**	792	-
Accounts payable and accrued liabilities	**-**	2,763	-

ii. Commodity price risk

Commodity price risk is the risk that the cash flows and operations of Berkley will fluctuate as a result of changes in commodity prices. Significant changes in commodity prices can also impact Berkley's ability to raise capital or obtain additional debt financing. Commodity prices for crude oil are impacted by world economic events that dictate the levels of supply and demand.

5. Financial instruments and financial risk management (continued)

Berkley's financial performance is closely linked to crude oil and natural gas prices. While Berkley may employ the use of financial instruments in the future to manage these price exposures, it currently does not have enough producing wells to hedge its production, and its crude oil and natural gas liquids are sold into spot markets.

6. Investment

During 2010, Berkley acquired 400,000 common shares of Trichoscience Innovations Inc. ("Trichoscience") at a price of $1.00 per share. On May 9, 2011 Trichoscience became a wholly-owned subsidiary of RepliCel Life Sciences ("RepliCel"). All outstanding shares of Trichoscience where exchanged for 2.2953 common shares of RepliCel. The common shares are being held in escrow and will be released 15% per quarter beginning January 1, 2012. The investment in RepliCel was measured at the fair value using the Black-Scholes pricing model and the following assumptions:

	June 30, 2011
Risk free interest rate	1.1%
Expected volatility	81%
Expected life (years)	2.13

Once released from escrow the investment in RepliCel will be valued at its trading price.

7. Capital Management

Berkley defines its capital to include the following:

		June 30, 2011		December 31, 2010		January 1, 2010
Cash and cash equivalents	**$**	**1,083,293**	$	1,127,719	$	839,811
Shareholders' equity	**$**	**3,950,739**	$	2,976,847	$	3,025,322

Berkley's objective is to maintain access to sources of capital with which to finance its operations. Berkley manages its capital structure and makes changes to it in light of changes in economic conditions and the risk characteristics of the underlying investments. Berkley will balance its overall capital structure through new share issues or by undertaking other activities as deemed appropriate in the specific circumstances. At June 30, 2011, December 31, 2010 and January 1, 2010, Berkley was not subjected to any externally imposed capital requirements.

8. Petroleum and Natural Gas Interests

Cost or deemed cost		
Balance at January 1, 2010	$	16,016,914
Additions		525,509
Disposal		(1,717,713)
Balance at December 31, 2010		14,824,710
Additions		73,220
Balance at June 30, 2011	$	14,897,930
Depletion and impairment losses		
Balance at January 1, 2010	$	14,048,358
Depletion		147,854
Impairment		430,842
Balance at December 31, 2010		14,627,054
Depletion		3,602
Balance at June 30, 2011	$	14,630,656
Net book value amount		
At June 30, 2011	$	267,274
At December 31, 2010	$	197,656
At January 1, 2010	$	1,968,556

As at December 31, 2010 oil and gas properties were impaired by $430,842. The impairment resulted from a significant decrease in the reserve volumes allocated to oil and gas properties as at December 31, 2010. The oil and gas properties were written down to fair value less cost to sell. Fair value was determined using a valuation technique that incorporates the estimated future cash flows based on reserve volumes and prices. No additional impairment write-down was required as at June 30, 2011.

9. Exploration and Evaluation Assets

		E&E Assets
Balance at January 1, 2010	$	379,129
Additions		-
Balance at December 31, 2010 & June 30, 2011	$	379,129

Exploration and evaluation (E&E) assets consist of the Company's exploration projects which are pending the determination of proven or probable reserves.

10. Other Property and Equipment

		Computer equipment		Furniture, fixtures and equipment		Leasehold improvements		Total
Cost								
Balance at January 1, 2010	$	13,358	$	8,521	$	-	$	21,879
Additions		5,024		679		4,078		9,781
Balance at December 31, 2010 and June 30, 2011	$	18,382	$	9,200	$	4,078	$	31,660

		Computer equipment		Furniture, fixtures and equipment		Leasehold improvements		Total
Depreciation and impairment loss								
Balance at January 1, 2010	$	13,234	$	7,438	$	-	$	20,672
Depreciation		785		210		1,020		2,015
Balance at December 31, 2010		14,019		7,648		1,020		22,687
Depreciation		633		225		3,058		3,917
Balance at June 30, 2011	$	14,653	$	7,873	$	4,078	$	26,604

Net book value amounts		
At June 30, 2011	$	5,056
At December 31, 2010	$	8,973
At January 1, 2010	$	1,207

11. Decommissioning Liability

The following table presents the reconciliation of the carrying amount of the obligation associated with the decommissioning of the Company's P&NG assets:

		June 30, 2011		December 31, 2010
Balance, beginning of period	**$**	**75,596**	$	176,540
Accretion		**1,133**		5,090
Change in estimates		**1,191**		6,023
Disposition of working interest		**-**		(112,057)
Asset retirement obligations, end of period	**$**	**77,920**	$	75,596

Berkley estimates the total undiscounted amount of cash flows required to settle its decommissioning liability is approximately $236,820 (December 31, 2010 - $282,472, January 1, 2010 - $198,832) which will be incurred between 2017 and 2029. The majority of these obligations will be incurred in 2017. An inflation factor of 1.5% has been applied to the estimated asset retirement cost. Risk-free discount rates of 2.83% - 4.04% were used to calculate the fair value of the asset retirement obligations.

12. Share Capital

a) Authorized

Unlimited Class A voting common shares, without par value

b) Issued

	Number of shares	Amount
Balance January 1, 2010	45,066,042	$14,794,482
Shares issued for debt	1,073,440	53,672
Balance December 31, 2010 and June 30, 2011	46,139,482	$14,848,154

13. Share-based Payments

The Company has an equity-settled stock option plan under which the Board of Directors may grant options to directors, officers, other employees and key consultants. The purpose of the plan is to advance the interests of the Company by encouraging these individuals to acquire shares in the Company and thereby remain associated with, and seek to maximize the value of, the Company.

Under the plan, the number of shares reserved for issuance pursuant to the exercise of all options under the plan may not exceed 10% of the issued and outstanding common shares on a non-diluted basis at any time. The options expire not more than five years from the date of grant, or earlier if the individual ceases to be associated with the Company, and vest over terms determined at the time of grant.

13. Share-based Payments *(continued)*

The following tables summarize information about stock options outstanding as at:

	June 30, 2011		December 31, 2010	
	Number of shares subject to option	**Weighted average exercise price per option**	Number of shares subject to option	Weighted average exercise price per option
Balance outstanding, beginning of period	**790,000**	**$0.56**	1,267,500	$0.69
Activity in the period:				
Expired	**-**	**-**	(477,500)	$0.90
Balance outstanding, end of period	**790,000**	**$0.56**	790,000	$0.56
Exercisable, end of period	**790,000**	**$0.56**	790,000	$0.56

A summary of stock options outstanding is as follows:

		Number of Shares Remaining Subject to Option at End of Period		
Exercise Price Per Share	**Expiry Date**	**June 30, 2011**	December 31, 2010	January 1, 2010
$0.90	December 23, 2010	**-**	-	477,500
$0.56	September 21, 2011	**440,000**	440,000	440,000
$0.55	July 4, 2012	**350,000**	350,000	350,000
		790,000	790,000	1,267,500

At June 30, 2011, December 31, 2010 and January 1, 2010 the following share purchase warrants were outstanding:

Exercise price Range	Expiry date	**Number of Warrants**
$0.10	December 16, 2011	**21,370,000**

14. Related Party Transactions

The condensed interim consolidated financial statements include the financial statements of Berkley Resources Ltd. and the subsidiary listed in the following table:

		% equity interest		
Name	**Country of Incorporation**	**June 30, 2011**	**December 31, 2010**	**January 1, 2010**
American Uranium Corp.	United States of America	53%	53%	-

Transactions with related parties

As at June 30, 2011, December 31, 2010 and January 1, 2010, the amount of transactions made with parties not at arm's length to the Company not otherwise disclosed consists of the following:

a) Directors' fees of $7,000 (December 31, 2010 - $35,708, January 1, 2010 - $118,012) were payable to directors.

b) During the year $42,241 in administrative, office services and premises expense were made to a private company owned by public companies having common directors (December 31, 2010 - $11,974, January 1, 2010 - $34,296). At year end $20,558 of this amount was included in accounts payable and accrued liabilities.

The transactions were in the normal course of operations and agreed to by the related party and the Company.

Compensation of key management personnel

The remuneration of directors and other members of key management personnel during the periods were as follows:

	Three months ended		Six months ended	
	June 30, 2011	June 30, 2010	**June 30, 2011**	June 30, 2010
	$	$	**$**	$
Compensation, including bonuses	**76,000**	-	**163,000**	163,000

15. Supplemental Cash Flow Information

	Three months ended		Six months ended	
	June 30, 2011	June 30, 2010	**June 30, 2011**	June 30, 2010
	$	$	**$**	$
Change in non-cash working capital items:				
Trade and other receivables	**(5,617)**	19,835	**(33,123)**	211,272
Deposits and other prepaids	**18,831**	5,675	**18,831**	675
Accounts payable and accrued liabilities	**100,763**	437,562	**(70,450)**	342,684
Due to related parties	**4,430**	(138,011)	**4,430**	(138,011)
Net change in non-cash working capital items	**118,407**	325,061	**(80,312)**	416,620

16. IFRS

The effect of Berkley's transition to IFRS, described in note 1, is summarized in this note. In accordance with IFRS 1 "First-time adoption of IFRS", certain disclosures relating to the transition are also provided in this note.

IFRS 1 sets forth guidance for the initial adoption of IFRS. Under IFRS 1 the standards are applied retrospectively at the transitional statement of financial position date with all adjustments to assets and liabilities taken to retained earnings unless certain exemptions are applied.

The Company has applied the following exemptions to its opening statement of financial position dated January 1, 2010:

Oil and gas exemption

In July 2009, the IASB published an amendment to IFRS 1 "Additional Exemptions for First-time Adopters", which introduces a first-time adoption exemption for first-time adopters that accounted under their previous GAAP for exploration and development costs for oil and gas properties in the development or production phases in cost centres that include all properties in a large geographical area (defined as full cost method under Canadian GAAP). Under the exemption, a first-time adopter may elect to measure oil and gas assets at the date of transition to IFRS on a deemed cost basis, but does not permit continued application of the previous GAAP accounting policy. Berkley followed a full cost approach under Canadian GAAP and has elected to use this election to measure oil and gas exploration and production assets at the date of transition to IFRS on a deemed cost basis.

Share-based payments

The Company has elected to apply the exemption under IFRS 2 "Share-based Payments" for retrospective application of IFRS 2 to equity instruments granted before the transition date.

Business combinations

The Company has elected to apply the exemption under IFRS 3 "Business Combinations" for retrospective application of IFRS 3 to business combinations that took place before the transition date.

Decommissioning liabilities

An entity that uses the deemed cost oil and gas exemption under IFRS 1 may also use an additional exemption with respect to decommissioning liabilities on oil and gas properties encompassed by the full cost method under Canadian GAAP. As Berkley has elected to apply the deemed cost oil and gas exemption, Berkley has also elected to apply this exemption and as such, Berkley has re-measured the decommissioning liability as at January 1, 2010 under IAS 37, and has recognized directly into deficit any differences between that amount and the carrying amount of the liabilities at January 1, 2010 as determined by Canadian GAAP.

17. RECONCILIATIONS FROM CANADIAN GAAP TO IFRS

The January 1, 2010 Canadian GAAP statement of financial position has been reconciled to IFRS as follows:

		January 1, 2010		
	Notes	Canadian GAAP	Effect of transition to IFRS	IFRS
ASSETS				
Current assets				
Cash and cash equivalents		$ 839,811	$ -	$ 839,811
Trade and other receivables		321,015	-	321,015
Deposits and other prepaid expenses		65,227	-	65,227
		1,226,053		1,226,053
Non-current assets				
Other property and equipment		1,207	-	1,207
Exploration and evaluation properties	(a)	-	379,129	379,129
Petroleum and natural gas interests	(b)	3,903,544	(1,934,988)	1,968,556
		$ 5,130,804	$ (1,555,859)	$ 3,574,945
LIABILITIES AND EQUITY				
Current liabilities				
Accounts payable and accrued liabilities		$ 373,084	$ -	$ 373,084
		373,084	-	373,084
Non-current liabilities				
Decommissioning liability	(c)	144,838	31,702	176,540
		517,922	31,702	549,624
Shareholders' Deficiency				
Share capital	(d)	13,219,091	1,575,390	14,794,482
Contributed surplus		1,733,013	-	1,733,013
Deficit		(10,339,222)	(3,162,952)	(13,502,174)
		4,612,882	(1,587,562)	3,025,321
		$ 5,130,804	$ (1,555,860)	$ 3,574,945

17. RECONCILIATIONS FROM CANADIAN GAAP TO IFRS *(continued)*

The Canadian GAAP statement of financial position at June 30, 2010 has been reconciled to IFRS as follows:

		June 30, 2010		
	Notes	Canadian GAAP	Effect of transition to IFRS	IFRS
ASSETS				
Current assets				
Cash and cash equivalents		$ 687,319	$ -	$ 687,319
Trade and other receivables		109,743	-	109,743
Deposits and other prepaid expenses		64,552	-	64,552
		861,614		861,614
Non-current assets				
Other property and equipment		6,500	-	6,500
Exploration and evaluation properties	(a)	-	379,129	379,129
Petroleum and natural gas interests	(b)	4,115,861	(1,729,507)	2,386,354
		$ 4,983,975	$ (1,350,378)	$ 3,633,597
LIABILITIES AND EQUITY				
Accounts payable and accrued liabilities		563,460	-	563,460
Due to related parties		$ 14,297	$ -	$ 14,297
		577,757	-	577,757
Non-current liabilities				
Decommissioning liability	(c)	139,444	42,021	181,465
		717,201	42,021	759,222
Shareholders' Deficiency				
Share capital	(d)	13,272,763	1,575,391	14,848,154
Contributed surplus		1,733,013	-	1,733,013
Deficit		(10,739,002)	(2,967,790)	(13,706,792)
		4,266,774	(1,392,399)	2,874,375
		$ 4,983,975	$ (1,457,091)	$ 3,633,597

17. RECONCILIATIONS FROM CANADIAN GAAP TO IFRS *(continued)*

The Canadian GAAP statement of financial position at December 31, 2010 has been reconciled to IFRS as follows:

		December 31, 2010		
	Notes	Canadian GAAP	Effect of transition to IFRS	IFRS
ASSETS				
Current assets				
Cash and cash equivalents		$ 1,127,719	$ -	$ $1,127,719
Trade and other receivables		84,052	-	84,052
Deposits and other prepaid expenses		81,009	-	81,009
Marketable securities		1,157,016	-	1,157,016
		2,449,796	-	2,449,796
Non-current assets				
Investment		400,000	-	400,000
Other property and equipment		8,973	-	8,973
Exploration and evaluation properties	(a)	-	379,129	379,129
Petroleum and natural gas interests	(b)	692,949	(495,293)	197,656
		$ 3,551,718	$ (116,164)	$ 3,435,554
LIABILITIES AND EQUITY				
Current liabilities				
Accounts payable and accrued liabilities		$ 383,111	$ -	$ 383,311
Non-current liabilities				
Decommissioning liability	(c)	60,174	15,422	75,596
		443,285	15,422	458,707
Shareholders' Deficiency				
Share capital	(d)	13,272,763	1,575,391	14,848,154
Non-controlling interest		951,265	-	951,265
Contributed surplus		1,733,013	-	1,733,013
Deficit		(12,848,608)	(1,706,977)	(14,555,585)
		3,108,433	(131,586)	2,976,847
		$ 3,551,718	$ (116,164)	$ 3,435,554

17. RECONCILIATIONS FROM CANADIAN GAAP TO IFRS *(continued)*

Explanation of the effect of the transition to IFRS

a) Exploration and evaluation properties

In accordance with IAS 16 "Property, Plant and Equipment", IFRS 6 "Exploration and Evaluation of Mineral Resources" and as a result of the Company using the oil and gas exemption, the Company reallocated costs relating to the exploration and evaluation phase from other property and equipment to exploration and evaluation properties ("E&E properties"). Under Canadian GAAP, capitalized E&E properties were included in other property and equipment on the statement of financial position. While the accounting treatment is unchanged under IFRS other than expensing of pre-acquisition costs, E&E properties and other property and equipment are presented separately in the balance sheet under IFRS. This has resulted in a reclassification from other property and equipment to E&E costs at January 1, 2010, June 30, 2010 and December 31, 2010 of $379,129.

b) Impairment

A condition of using the IFRS 1 exemption discussed in note 1 is that the Company must test the resulting exploration and evaluation and development and production assets for impairment. The Company has conducted the impairment test and this has resulted in certain exploration and evaluation assets being impaired.

The Company wrote-off costs of $1,555,859 at January 1, 2010 and $430,842 at December 31, 2010 in relation to these assets which were impaired under IFRS at the date of transition to IFRS.

c) Decommissioning liabilities

Under Canadian GAAP, decommissioning obligations are measured at fair value, incorporating market assumptions and discount rates based on the Company's credit adjusted risk-free rate at the time the obligation arose. Changes in the discount rate did not result in the re-measurement of the entire obligation. Changes in estimates that decreased the liability are discounted using the rate applied upon initial recognition while changes that increase the liability are discounted using the current discount rate. Accretion expense resulting from the increase in the liability due to the passage of time was recorded in depreciation, depletion and accretion expense.

IFRS requires adjustments to the liability to be made each period for changes in the timing or amount of cash-flow, changes in discount rates and the accretion of the liability. Estimated future cash flows have been discounted using the risk-free rate. Under IFRS, accretion expense is recorded as a borrowing cost. As described previously, the Company has elected to use the oil and gas exemption and the exemption from full retrospective application of decommissioning liabilities. The Company has re-measured the liabilities relating to resource assets as at January 1, 2010 using the risk-free rate, and this has resulted in an increase to the liability at January 1, 2010, June 30, 2010 and December 31, 2010 of $31,702, $42,021 and $15,422 respectively, with a corresponding increase in deficit.

d) Flow-through shares

Flow-through shares are a Canadian tax incentive which is the subject of specific guidance under Canadian GAAP, however there is no specific guidance under IFRS. Under Canadian GAAP, when flow-through shares are issued they are recorded at face value. The related future tax liability is established for the tax effect of the difference between the tax bases and the book bases of the assets when renounced and is recorded as a reduction of share capital.

17. RECONCILIATIONS FROM CANADIAN GAAP TO IFRS *(continued)*

The Company has adopted a policy under IFRS where the proceeds from the offering are to be allocated between the sale of the shares and the sale of the tax benefit. The allocation is made based on the difference between the quoted market price of the existing shares and the amount an investor pays for the flow-through shares. A liability is established for this difference that is reversed upon renunciation of the tax benefit. The difference between this liability and the deferred tax liability is recorded as an income tax expense. This has resulted in a re-classification between deficit and share capital at January 1, 2010, June 30, 2010 and December 31, 2010 of $1,575,391.

The Company has reviewed all changes required under IFRS and determined that adjustments are required to the prior period statements of operations and the statements of cash flows for amounts recorded for depletion and accretion.

The Canadian GAAP statement of loss and comprehensive loss for the three months and six months ended June 30, 2010 has been reconciled to IFRS as follows:

			3 months ended June 30, 2010				
	Notes		Canadian GAAP		Effect of transition to IFRS		IFRS
Revenue							
Petroleum and natural gas		$	117,422	$	-	$	117,422
Royalty expense			(28,841)		-		(28,841)
			88,581				88,581
Oil and gas production expenses							
Operating costs			36,251		-		36,251
Depletion and depreciation	(a)		129,131		(93,953)		35,178
			165,382		(93,953)		71,429
Operating income		$	(76,801)	$	(93,953)	$	17,152
General and administrative expenses							
Administrative and premises			29,139		-		29,139
Management fees			45,000		-		45,000
Consulting fees			15,055		-		15,055
Professional fees			18,220		-		18,220
Filing and transfer agent fees			5,467		-		5,467
Shareholder information			205		-		205
Amortization			205		-		205
			(113,291)		-		(113,291)
Other Income (Expenses)							
Interest expense			(1,127)		-		(1,127)
Net loss and comprehensive loss			(191,319)				(97,366)
Basic and diluted loss per share		$	(0.01)	$		$	(0.00)
Weighted average number of shares outstanding			45,443,515				45,443,515

17. RECONCILIATIONS FROM CANADIAN GAAP TO IFRS *(continued)*

			6 months ended June 30, 2010				
	Notes		Canadian GAAP		Effect of transition to IFRS		IFRS
Revenue							
Petroleum and natural gas		$	222,921	$	-	$	222,921
Royalty expense			(51,895)		-		(51,895)
			171,026				171,026
Oil and gas production expenses							
Operating costs			96,126		-		96,126
Depletion and depreciation	(a)		255,421		(195,162)		60,259
			351,547		(195,162)		156,385
Operating income		$	(180,521)	$	(195,162)	$	14,641
General and administrative expenses							
Administrative and premises			48,713		-		48,713
Management fees			101,000		-		101,000
Consulting fees			31,917		-		31,917
Professional fees			21,032		-		21,032
Filing and transfer agent fees			12,793		-		12,793
Shareholder information			2,268		-		2,268
Amortization			409		-		409
			(218,132)		-		(218,132)
Other Income (Expenses)							
Interest expense			(1,127)		-		(1,127)
Net loss and comprehensive loss			(399,780)				(204,618)
Basic and diluted loss per share		$	(0.01)	$		$	(0.00)
Weighted average number of shares outstanding			45,254,779				45,254,779

17. RECONCILIATIONS FROM CANADIAN GAAP TO IFRS *(continued)*

The Canadian GAAP statement of loss and comprehensive loss for the year ended December 31, 2010 has been reconciled to IFRS as follows:

		For the year ended December 31, 2010		
	Notes	Canadian GAAP	Effect of transition to IFRS	IFRS
Revenue				
Petroleum and natural gas		$ 368,080	$ -	$ 368,080
Royalty expense		(86,436)	-	(86,436)
		281,644	-	281,644
Oil and gas production expenses				
Operating costs		139,968	-	139,968
Depletion and depreciation	(a)	260,950	280,782	541,732
		400,918	280,782	681,700
Operating income		$ (119,274)	$ 280,782	$ (400,056)
General and administrative expenses				
Administrative, office services and premises		221,767	-	221,767
Management fees		408,761	-	408,761
Consulting fees		48,325	-	48,325
Professional fees		117,463	-	117,463
Filing and transfer agent fees		36,399	-	36,399
Shareholder information		1,979	-	1,979
Amortization		2,013	-	2,013
		836,707	-	836,707
Other income (expenses)				
Realized foreign exchange gain		24,444	-	24,444
Bad debt expense		(143,000)	-	(143,000)
Unrealized gain on investments		525,285	-	525,285
Loss on disposal of mineral properties		(980,018)	629,992	(350,026)
Loss on impairment	(b)	(1,113,003)	1,106,764	(6,239)
Gain on corporate acquisition		323,551	-	323,551
		(1,362,741)	1,736,756	374,015
Loss before tax		(2,318,722)	1,455,974	(862,748)
Future income tax expense		42,515	-	42,515
Net loss attributed to non-controlling interest		148,149	-	148,149
Net loss and comprehensive loss		(2,509,386)		(1,053,412)
Basic and diluted loss per share		$ (0.05)	$	$ (0.02)
Weighted average shares outstanding		46,018,904		46,018,904

17. RECONCILIATIONS FROM CANADIAN GAAP TO IFRS *(continued)*

Explanation of the effect of the transition to IFRS

a) Method of depletion

Canadian GAAP includes specific standards that prescribe the method for the calculation of depletion which does not exist under IFRS. Using full-cost accounting under Canadian GAAP, oil and gas assets are depleted using the unit-of-production method using remaining proved reserves. Under IFRS, the accounting policy for depletion includes proved and probable reserves, as this more accurately reflects the estimate for the usage of the resource assets. This has resulted in a decrease to depreciation and depletion expense of $195,162 for the period ended June 30, 2010 and a decrease of $147,854 for the year ended December 31, 2010.

b) Impairment

A condition of using the IFRS 1 exemption is that the Company must test the resulting exploration and evaluation and development and production assets for impairment. The Company has conducted the impairment test and this has result in certain exploration and evaluation assets being impaired.

The Company wrote-off costs of $430,842 at December 31, 2010 in relation to these assets which were impaired under IFRS at the date of transition to IFRS.

18. Restatement of Consolidated Statement of Cash Flows from Canadian GAAP to IFRS

The restatement from Canadian GAAP to IFRS had no significant effect on the reported cash flows generated by the Company for the three and six months ended June 30, 2010. The reconciling items between Canadian GAAP presentation and IFRS have no significant effect on the cash flows generated.