

**BERKLEY RENEWABLES INC.**

**CONSOLIDATED FINANCIAL STATEMENTS**

**For the Years Ended December 31, 2017 and 2016**

*(Expressed in Canadian Dollars)*

## Independent Auditors' Report

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To the Shareholders of Berkley Renewables Inc.

We have audited the accompanying consolidated financial statements of Berkley Renewables Inc., which comprise the consolidated statements of financial position as at December 31, 2017 and 2016, the consolidated statements of loss and comprehensive loss, changes in shareholders' deficit and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Berkley Renewables Inc. as at December 31, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

### *Emphasis of Matter*

Without qualifying our opinion, we draw attention to Note 1 of the consolidated financial statements which describes matters and conditions that indicate the existence of a material uncertainty which may cast significant doubt about Berkley Renewables Inc.'s ability to continue as a going concern.

Calgary, Alberta  
May 3, 2018

*MNP* LLP  
Chartered Professional Accountants

**BERKLEY RENEWABLES INC.**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

As at:

	December 31, 2017	December 31, 2016
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 569,387	\$ 270,313
Due from related parties (Note 13)	5,748,266	3,850,901
Investment classified as fair value through profit or loss (Note 5)	86,756	314,243
Prepaid expenses	17,649	20,263
<b>Total current assets</b>	<b>6,422,058</b>	<b>4,455,720</b>
Other property and equipment (Note 6)	1,314	1,767
<b>Total non-current assets</b>	<b>1,314</b>	<b>1,767</b>
<b>Total assets</b>	<b>\$ 6,423,372</b>	<b>4,457,487</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 2,221,228	\$ 772,627
Taxes payable	-	550,245
Due to related parties (Note 13)	5,330,814	3,430,783
Notes payable (Note 8)	86,512	70,825
<b>Total current liabilities</b>	<b>7,638,554</b>	<b>4,824,480</b>
Decommissioning liability (Note 7)	119,129	123,890
<b>Total liabilities</b>	<b>7,757,683</b>	<b>4,948,370</b>
<b>SHAREHOLDERS' DEFICIT</b>		
Share capital (Note 9)	15,364,367	15,364,367
Contributed surplus	1,813,300	1,813,300
Deficit	(18,365,783)	(17,735,277)
	(1,188,116)	(557,610)
Non-controlling interest (Note 11)	(146,195)	66,727
<b>Total shareholders' deficit</b>	<b>(1,334,311)</b>	<b>(490,883)</b>
<b>Total liabilities and shareholders' deficit</b>	<b>\$ 6,423,372</b>	<b>\$ 4,457,487</b>
Going concern (Note 1)		

*"signed"*

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Matt Wayrynen, Director

*"signed"*

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Tyrone Docherty, Director

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

**BERKLEY RENEWABLES INC.**  
**CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS**

For the years ended:

	December 31, 2017	December 31, 2016
<b>Revenue</b>	<b>\$</b>	<b>\$</b>
Consulting revenue (Note 13)	1,724,766	1,010,662
Oil and gas revenue	-	23,382
	1,724,766	1,034,044
<b>Expenses</b>		
General and administrative (Note 17)	2,920,638	1,018,660
Royalty expense	-	532
Operating costs	-	24,064
Accretion (Note 7)	1,209	953
Depletion	-	(144)
<b>Net loss from operations</b>	<b>(1,197,081)</b>	<b>(10,021)</b>
<b>Other income (expenses)</b>		
Bad debt expense (Note 15)	-	(34,957)
Realized loss on disposal of investments classified as available for sale (Note 5)	-	(123,760)
(Loss) gain on investment classified as fair value through profit or loss (Note 5)	(198,608)	214,243
Gain on disposal of petroleum and natural gas interests	-	31,724
Other income	2,016	171
<b>(Loss) income before tax</b>	<b>(1,393,673)</b>	<b>77,400</b>
Tax (recovery) expense (Note 12)	(550,245)	97,823
<b>Net loss and comprehensive loss</b>	<b>\$ (843,428)</b>	<b>\$ (20,423)</b>
<b>Net loss and comprehensive loss attributed to:</b>		
Shareholders of the Company	(630,506)	172,705
Non-controlling interest (Note 11)	(212,922)	(193,128)
	(843,428)	(20,423)
<b>Basic and diluted net (loss) earnings per share attributable to shareholders of the Company (Note 10)</b>	<b>\$ (0.06)</b>	<b>\$ 0.02</b>

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

**BERKLEY RENEWABLES INC.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' DEFICIT**

	<i>Note</i>	Share Capital	Contributed Surplus	Deficit	Non- Controlling Interest	Accumulated Other Comprehensive Income	Total
<b>Balance as at December 31, 2015</b>		\$ 15,364,367	\$ 1,813,300	\$ (17,732,609)	\$ 259,855	\$ (175,373)	\$ (470,460)
Net loss for the year		-	-	172,705	-	-	172,705
Recycling of accumulated other comprehensive income to deficit	5	-	-	(175,373)	-	175,373	-
Non-controlling interest	11	-	-	-	(193,128)	-	(193,128)
<b>Balance as at December 31, 2016</b>		\$ 15,364,367	\$ 1,813,300	\$ (17,735,277)	\$ 66,727	\$ -	(490,883)
Net loss for the year		-	-	(630,506)	-	-	(630,506)
Non-controlling interest	11	-	-	-	(212,922)	-	(212,922)
<b>Balance as at December 31, 2017</b>		\$ 15,364,367	\$ 1,813,300	\$ (18,365,783)	\$ (146,195)	\$ -	(1,334,311)

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

**BERKLEY RENEWABLES INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

For the years ended:

	December 31, 2017	December 31, 2016
<b>CASH PROVIDED BY (USED IN):</b>		
<b>OPERATING ACTIVITIES</b>		
Net loss for the year	\$ (843,428)	\$ (20,423)
Items not requiring cash in the year		
Tax (recovery) expense (Note 12)	(550,245)	97,823
Change in estimates (Note 7)	(5,970)	-
Depreciation, depletion and accretion (Notes 6 and 7)	1,662	1,419
Realized loss on disposal of investment classified as available for sale (Note 5)	-	123,760
Unrealized loss (gain) on investment classified as fair value through profit or loss (Note 5)	198,608	(214,243)
Cash used in operating activities before non-cash working capital	(1,199,373)	(43,388)
Change in non-cash working capital (Note 14)	1,451,215	(199,799)
Cash provided by (used in) operating activities	251,842	(243,187)
<b>INVESTING ACTIVITIES</b>		
Proceeds on disposal of investment classified as available for sale (Note 5)	-	94,848
Purchase of investment classified as fair value through profit or loss (Note 5)	-	(100,000)
Proceeds on disposal of investment classified as fair value through profit or loss (Note 5)	28,879	-
Proceeds on disposal of petroleum and natural gas interest	-	17,500
Cash provided by investing activities	28,879	12,348
<b>FINANCING ACTIVITIES</b>		
Issuance of notes payable (Note 8)	15,687	55,125
Advances from related parties	1,900,031	2,291,616
Advances to related parties	(1,897,365)	(2,060,171)
Cash (used in) provided by financing activities	18,353	286,570
<b>Increase in cash and cash equivalents</b>	<b>299,074</b>	<b>55,731</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>270,313</b>	<b>214,582</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 569,387</b>	<b>\$ 270,313</b>

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

**BERKLEY RENEWABLES INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the years ended December 31, 2017 and 2016**

**1. Nature of Operations and Going Concern**

Berkley Renewables Inc. (“Berkley”) was created on the amalgamation of Fortune Island Mines Ltd., Kerry Mining Ltd. and Berkley Resources Ltd. under the Company Act (British Columbia) on July 18, 1986. Previously focused on the acquisition, exploration, development and production from petroleum and natural gas interests in Alberta, Canada, Berkley is currently diversifying its strategy into renewable sources of energy, specifically the management and operation of photovoltaic power generation. The address of the registered office is 900, 570 Granville Street, Vancouver, British Columbia, V6C 3P1.

The consolidated financial statements include the financial statements of Berkley Renewables Inc. and the subsidiaries listed below (hereinafter together referred to as the “Company”):

Name	Country of Incorporation	Functional Currency	% equity interest	
			2017	2016
Blue Star Global Inc. (formerly AUC)	US	Canadian Dollars	53%	53%
Solar Flow-Through 2012-I General Partner Ltd.	Canada	Canadian Dollars	95%	95%
Solar Flow-Through 2012-I Management Ltd.	Canada	Canadian Dollars	95%	95%
Solar Flow-Through 2013-I General Partner Ltd.	Canada	Canadian Dollars	95%	95%
Solar Flow-Through 2013-I Management Ltd.	Canada	Canadian Dollars	95%	95%
Solar Flow-Through 2014-I General Partner Ltd.	Canada	Canadian Dollars	95%	95%
Solar Flow-Through 2014-I Management Ltd.	Canada	Canadian Dollars	95%	95%
Solar Flow-Through 2015-I General Partner Ltd.	Canada	Canadian Dollars	95%	95%
Solar Flow-Through 2015-I Management Ltd.	Canada	Canadian Dollars	95%	95%
Solar Flow-Through 2016-I General Partner Ltd.	Canada	Canadian Dollars	95%	95%
Solar Flow-Through 2016-I Management Ltd.	Canada	Canadian Dollars	95%	95%
Solar Flow-Through 2017-A General Partner Ltd.	Canada	Canadian Dollars	83.375%	-
Solar Flow-Through 2017-A Management Ltd.	Canada	Canadian Dollars	83.375%	-
Solar Flow-Through 2017-I General Partner Ltd.	Canada	Canadian Dollars	83.375%	-
Solar Flow-Through 2017-I Management Ltd.	Canada	Canadian Dollars	83.375%	-

On February 27, 2017, Berkley acquired 833.75 common shares of Solar Flow-Through 2017-A General Partner Ltd. (“SFT2017A GP Ltd.”) representing a 83.375% interest as at December 31, 2017. As part of the acquisition, SFT2017 GP Ltd. became a direct subsidiary of Berkley and as such is consolidated from the date of acquisition.

On February 27, 2017, Berkley acquired 833.75 common shares of Solar Flow-Through 2017-A Management Ltd. (“SFT2017A”) representing a 83.375% interest as at December 31, 2017. As part of the acquisition, SFT2017 became a direct subsidiary of Berkley and as such is consolidated from the date of acquisition.

On February 27, 2017, Berkley acquired 833.75 common shares of Solar Flow-Through 2017-I General Partner Ltd. (“SFT2017I GP Ltd.”) representing a 83.375% interest as at December 31, 2017. As part of the acquisition, SFT2017 GP Ltd. became a direct subsidiary of Berkley and as such is consolidated from the date of acquisition.

On February 27, 2017, Berkley acquired 833.75 common shares of Solar Flow-Through 2017-I Management Ltd. (“SFT2017I”) representing a 83.375% interest as at December 31, 2017. As part of the acquisition, SFT2017 became a direct subsidiary of Berkley and as such is consolidated from the date of acquisition.

These consolidated financial statements 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. As at December 31, 2017, the Company has a net loss for the year of \$843,428 (2016 – \$20,423) and an accumulated deficit of \$18,365,783 (2016 - \$17,735,277). These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Company’s ability to continue as a going concern.

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

The Company's ability to continue as a going concern is dependent upon its ability to raise additional capital through the issuance of treasury shares or debt and achieve profitable operations in the future. The management of the Company has developed a strategy to address this uncertainty, including additional equity and/or debt financing; however, there are no assurances that any such financing can be obtained on favourable terms, if at all. If the going concern assumption was not appropriate for these consolidated financial statements, then adjustments would be necessary in the carrying values of assets and liabilities, reported revenues and expenses, and the consolidated statement of financial position classifications used.

The consolidated financial statements were authorized for issuance on May 3, 2018, by the Board of Directors.

**2. Basis of Preparation**

**a) Statement of compliance**

These consolidated financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and the Interpretations of the IFRS Interpretations Committee ("IFRIC") and in effect at January 1, 2017.

**b) Basis of measurement**

The consolidated financial statements of the Company have been prepared on a historical cost basis, except for certain financial instruments and share-based payment transactions that have been measured at fair value.

**c) Functional and presentation currency**

The functional currency of the Company is the Canadian dollar. The consolidated financial statements are presented in Canadian dollars.

**d) Use of estimates and judgments**

The preparation of the Company's consolidated financial statements requires management to make, at the end of the reporting period, judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets, liabilities and the disclosure of contingencies and commitments. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods. The estimates and underlying assumptions are reviewed by management on an ongoing basis. Revisions to required estimates are recognized in the year in which the estimate is revised.

The key estimates and judgments concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are outlined below.

**Significant estimates**

*Taxes*

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. The Company establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable earnings will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable earnings together with future tax planning strategies.



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

**d) Use of estimates and judgments** *(continued)*

*Allowance for doubtful debts*

The Company makes allowances for doubtful debts based on an assessment of the recoverability of loans and receivables. Allowances are applied to loans and receivables where events or changes in circumstances indicate that the carrying amounts may not be recoverable. Management specifically analyses historical bad debts, customer concentrations, customer credit worthiness, current economic trends and changes in customer payment terms when making a judgment to evaluate the adequacy of the allowance for doubtful debts of receivables. The amount of the allowance is the difference between the carrying amount of the loans and receivables and the amount expected to be collected.

*Fair value of financial instruments*

The estimated fair value of financial assets and liabilities, by their very nature, are subject to measurement uncertainty. 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 judgment, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

*Decommissioning liabilities and accretion*

The amounts recorded for decommissioning liabilities and the related accretion expenses are based on estimates of the costs to abandon and reclaim the wells and facilities and the estimated time period in which these costs are expected to be incurred in the future. In determining the present value of the decommissioning liabilities, assumptions and estimates are made in relation to discount rates, the expected cost for the reclamation, the expected cost to recover the asset and the expected timing of those costs. The Company's operations are affected by federal, provincial and local laws and regulations concerning environmental protection. The Company's provisions for future site restoration and reclamation are based on known requirements. It is not currently possible to estimate the impact on operating results, if any, of future legislative or regulatory developments.

**3. Significant Accounting Policies**

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by all entities included in these consolidated financial statements.

**a) Basis of consolidation**

The consolidated financial statements include the accounts of Berkley and its subsidiaries as at December 31, 2017 and 2016. The subsidiaries are consolidated from the date of acquisition, being the date on which Berkley obtained control, and continue to be consolidated until the date that such control ceases. Non-controlling interests represent equity interests in subsidiaries owned by outside parties. The share of net assets of subsidiaries attributable to non-controlling interests is presented as a component of equity. Their share of total comprehensive loss is recognized directly in equity. The financial statements of the subsidiaries 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, due from related parties, investment classified as fair value through profit or loss, accounts payable and accrued liabilities, notes payable and due to related parties. 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.

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

**b) Financial instruments** *(continued)*

(i) Non-derivative financial instruments *(continued)*:

*Loans and receivables:*

Loans and receivables are subsequently carried at amortized cost using the effective interest method.

A provision for impairment of loans and 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 loss and comprehensive loss. When a loan and receivable is uncollectible, it is written off against the allowance account for doubtful debts. The Company has classified due from related parties as loans and receivables.

*Financial assets at fair value through profit or loss:*

A financial 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 profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognized in the consolidated statement of loss and comprehensive loss. The Company has designated cash and cash equivalents and investment at fair value through profit or loss.

*Available-for-sale financial assets:*

Available-for-sale financial assets are non-derivative financial assets that are not classified as loans and receivables or financial assets at fair value through profit or loss. Subsequent to initial recognition, they are measured at fair value, with gains or losses recognized within other comprehensive loss. Accumulated changes in fair value are recorded as a separate component of equity until the investment is impaired, sold or otherwise disposed of, then the cumulative gain or loss in other comprehensive loss is transferred to profit or loss. The Company does not have any available-for-sale financial assets at December 31, 2017 or 2016.

*Other financial liabilities:*

Other financial liabilities include accounts payable and accrued liabilities, notes payable and due to related parties are subsequently measured at amortized cost using the effective interest rate method.

**c) Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand and held at banks and highly liquid temporary money market instruments 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 December 31, 2017 and 2016 consisted entirely of cash.

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

**d) Revenue recognition**

Revenue from the sale of petroleum and natural gas (“P&NG”) 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.

Consulting revenues are recognized when services are rendered and when collection is reasonably assured.

**e) Other property and equipment**

Other property and equipment consists of computer equipment, leasehold improvements and furniture, fixtures and equipment that are depreciated at the following rates per annum under the declining balance and straight-line method:

Computer equipment	30% declining balance
Furniture, fixtures and equipment	20% declining balance
Leasehold improvements	Term of the lease, straight-line

**f) Impairment of assets**

**Non-financial assets**

At each financial reporting date, the carrying amounts of P&NG interests and exploration and evaluation (“E&E”) assets are reviewed to determine whether there is any indication that those assets are impaired. If such indication exists, an estimate of the recoverable amount of the asset is calculated.

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

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 to the Company and the risks specific to the asset. Fair value less cost to sell is derived by estimating the discounted before-tax future net cash flows. Discounted future net cash flows are based on forecasted commodity prices and costs over the expected economic life of the reserves and discounted market-based rates to reflect a market participant’s view of the risks associated with the assets.

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 the consolidated statement of loss and comprehensive loss. 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. 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 the consolidated statement of loss and comprehensive loss.

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

**f) Impairment of assets** *(continued)*

**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 the consolidated statement of loss and comprehensive loss. 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 the consolidated statement of loss and comprehensive loss.

**g) Taxes**

Tax expense is comprised of current and deferred tax expenses. Tax expense is recognized in the consolidated statement of loss and comprehensive loss except to the extent that if the tax expense related to items recognized directly in equity, the 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.

**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.

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

**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.

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. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation discounted using the risk-free rate, updated at each reporting date. The increase in the provision due to the passage of time is recognized as accretion expense whereas increases or decreases due to changes in the estimates are capitalized as P&NG interests. Actual costs incurred upon settlement of the decommissioning liability reduce the liability to the extent the provision was established. The related decommissioning asset is depleted on the same basis as the P&NG interests to which it relates.

**4. Accounting Pronouncements**

***Recent accounting pronouncements***

Standards issued but effective for annual periods beginning after January 1, 2017 are listed below. This listing is of standards and interpretations issued, which the Company reasonably expects to be applicable at a future date. The Company is currently assessing the impact of these standards.

- (i) IFRS 9 "Financial Instruments": addresses requirements for the classification and measurement of financial instruments, impairment methodology and hedge accounting. The IASB set a mandatory effective date for annual periods beginning on or after January 1, 2018. The Company has evaluated the impact of adopting IFRS 9 on the financial statements and will adopt the new standard using the modified retrospective method effective January 1, 2018. The new standard will result in a change of accounting policy for impairment of trade and other receivables using an expected credit loss model as compared to incurred loss model required by IAS 39. The Company will apply the simplified approach to providing for expected credit losses prescribed by IFRS 9, which requires the use of the lifetime expected loss provision for all trade receivables. In estimating the lifetime expected loss provision, the Company considered historical industry default rates as well as credit ratings of major customers. The effect of this change in accounting policy will not have a material impact on the Company's financial statements.
- (ii) IFRS 15, "Revenue from Contracts with Customers": replaces the existing revenue recognition guidance with a new framework to determine the timing and measurement of revenue, providing users of the financial statements more information and relevant disclosures. IFRS 15 is effective for annual periods beginning on or after January 1, 2018 and the Company will adopt the new standard using the modified retrospective method. The Company has evaluated the impact of adopting IFRS 15 on the financial statements and determined it will not have a material impact. The Company will be required to provide enhanced disclosures relating to the disaggregation of revenues from contracts with customers, the Company's performance obligations and any significant judgements.

**4. Accounting Pronouncements** *(continued)*

***Recent accounting pronouncements*** *(continued)*

- (iii) IFRS 16, "Leases" was issued and IAS 17 "Leases" was amended. IFRS 16 specifies how to recognize, measure, present and disclose leases effective for annual period beginning on or after January 1, 2019. The standard provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, unless the lease term is 12 months or less or the underlying asset has a low value. Lessor accounting however remains largely unchanged from IAS 17 and the distinction between operating and finance leases is retained. IAS 17, as revised, now prescribes the accounting policies and disclosures applicable to leases, both for lessees and lessors. The Company does not anticipate the adoption of this standard to have a material impact on the consolidated financial statements.

**5. Investment in RepliCel Life Sciences**

***Fair value through profit or loss***

On October 28, 2016, the Company purchased 38,467 units in RepliCel for cash consideration of \$20,000. Each unit is comprised of one share and one option to purchase a common share purchase warrant which entitles the Company to acquire one share of RepliCel at an exercise price of \$0.85 per share until the expiry date of October 28, 2018.

On December 28, 2016 the Company purchased 153,846 units in RepliCel for cash consideration of \$80,000. Each unit is comprised of one share and one option to purchase a common share purchase warrant which entitles the Company to acquire one share of RepliCel at an exercise price of \$1.10 per share until the expiry date of December 28, 2018.

On April 28, 2017, the Company sold 30,000 shares of RepliCel for cash consideration of \$28,879 and recognized a gain of \$600.

The Company recognized a loss on investment in RepliCel for the year ended December 31, 2017 of \$198,608 (2016 – \$214,243 gain) upon revaluation of the investment to fair value.

***Available for sale***

During 2016, the Company sold 874,432 shares in RepliCel Life Sciences ("RepliCel") for net proceeds of \$94,848 and realized a loss in the amount of \$22,034 in net income. As the Company no longer has any available for sale financial instruments, accumulated other comprehensive income was recycled to net income as at December 31, 2016, resulting in an aggregate loss of \$123,760.

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**6. Other Property and Equipment**

	Computer equipment	Furniture, fixtures and equipment	Leasehold improvements	Total
<b>Cost</b>				
<b>Balance at December 31, 2015, 2016 and 2017</b>	\$ 36,724	\$ 9,199	\$ 4,078	\$ 50,001
<b>Depreciation</b>				
Balance, December 31, 2015	\$ 34,924	\$ 8,622	\$ 4,078	\$ 47,624
Depreciation	503	107	-	610
Balance, December 31, 2016	\$ 35,427	8,729	4,078	48,234
Depreciation	365	88	-	453
<b>Balance at December 31, 2017</b>	<b>\$ 35,792</b>	<b>8,817</b>	<b>4,078</b>	<b>48,687</b>
<b>Net book value</b>				
At December 31, 2016			\$	1,767
<b>At December 31, 2017</b>			<b>\$</b>	<b>1,314</b>

**7. 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 interests:

	2017	2016
Balance, beginning of year	\$ 123,890	\$ 151,457
Accretion	1,209	953
Change in estimates	(5,970)	(567)
Disposal of decommissioning liability	-	(27,953)
Balance, end of year	\$ 119,129	\$ 123,890

Berkley estimates the total undiscounted amount of cash flows required to settle its decommissioning liability is approximately \$117,622 (2016 - \$128,055) which will be incurred between 2019 and 2029. An inflation factor of 1.5% (2016 - 2%) has been applied to the estimated asset retirement cost. Risk-free discount rates of 0.77% - 2.38% (2016 - 0.52% - 2.31%) were used to calculate the present value of the decommissioning liability.

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**BERKLEY RENEWABLES INC.**  
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**8. Notes Payable**

During 2017, the Company increased their note payable with a third party by an additional \$15,687 to \$86,512. The note payable is non-interest bearing, does not have fixed repayment terms, and is due on demand.

**9. Share Capital**

a) Authorized

Unlimited Class A common shares, without par value.

b) Issued

	<b>Number of shares</b>	<b>Amount</b>
<b>Balance at December 31, 2015, 2016 and 2017</b>	<b>10,411,451</b>	<b>15,364,367</b>

**10. Earnings (Loss) Per Share**

Basic earnings (loss) per share amounts are calculated by dividing the net income (loss) of the year attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the year.

The Company did not have any dilutive instrument as at December 31, 2017 or 2016.

The Company has calculated earnings (loss) per share as follows:

	<b>2017</b>	<b>2016</b>
Net (loss) income attributable to shareholders of the Company	<b>\$ (630,506)</b>	\$ 172,705
Weighted average shares outstanding	<b>10,411,451</b>	10,411,451
Basic and diluted (loss) earnings per common share	<b>\$ (0.06)</b>	\$ 0.02



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**11. Non-Controlling Interest**

The Company's non-controlling interest in the consolidated statement of financial position was as follows:

	<b>2017</b>	<b>2016</b>
Blue Star Global Inc. (formerly American Uranium Corporation)	\$ <b>13,925</b>	\$ 32,121
Solar Flow-Through 2012-I General Partner Ltd.	<b>(8,927)</b>	(8,682)
Solar Flow-Through 2012-I Management Ltd.	<b>(17,547)</b>	(20,641)
Solar Flow-Through 2013-I General Partner Ltd.	<b>(2,153)</b>	(1,864)
Solar Flow-Through 2013-I Management Ltd.	<b>(6,082)</b>	27,588
Solar Flow-Through 2014-I General Partner Ltd.	<b>(20,936)</b>	(20,617)
Solar Flow-Through 2014-I Management Ltd.	<b>(9,173)</b>	16,880
Solar Flow-Through 2015-I General Partner Ltd.	<b>(1,904)</b>	(1,697)
Solar Flow-Through 2015-I Management Ltd.	<b>(16,131)</b>	13,925
Solar Flow-Through 2016-I General Partner Ltd.	<b>(1,621)</b>	(1,393)
Solar Flow-Through 2016-I Management Ltd.	<b>(43,475)</b>	31,107
Solar Flow-Through 2017-I General Partner Ltd.	<b>(276)</b>	-
Solar Flow-Through 2017-I Management Ltd.	<b>(957)</b>	-
Solar Flow-Through 2017-A General Partner Ltd.	<b>(249)</b>	-
Solar Flow-Through 2017-A Management Ltd.	<b>(30,689)</b>	-
	<b>\$ (146,195)</b>	<b>\$ 66,727</b>

The Company's non-controlling interests included in the consolidated statement of loss and comprehensive loss were as follows:

	<b>2017</b>	<b>2016</b>
Blue Star Global Inc. (formerly American Uranium Corporation)	\$ <b>(18,196)</b>	\$ (196,106)
Solar Flow-Through 2012-I General Partner Ltd.	<b>(245)</b>	(1,784)
Solar Flow-Through 2012-I Management Ltd.	<b>3,094</b>	(3,424)
Solar Flow-Through 2013-I General Partner Ltd.	<b>(289)</b>	(1,347)
Solar Flow-Through 2013-I Management Ltd.	<b>(33,670)</b>	(15,700)
Solar Flow-Through 2014-I General Partner Ltd.	<b>(319)</b>	(1,308)
Solar Flow-Through 2014-I Management Ltd.	<b>(26,053)</b>	183
Solar Flow-Through 2015-I General Partner Ltd.	<b>(207)</b>	(1,266)
Solar Flow-Through 2015-I Management Ltd.	<b>(30,056)</b>	(2,089)
Solar Flow-Through 2016-I General Partner Ltd.	<b>(228)</b>	(1,393)
Solar Flow-Through 2016-I Management Ltd.	<b>(74,582)</b>	31,110
Solar Flow-Through 2017-A General Partner Ltd.	<b>(276)</b>	-
Solar Flow-Through 2017-I General Partner Ltd.	<b>(957)</b>	-
Solar Flow-Through 2017-A Management Ltd.	<b>(249)</b>	-
Solar Flow-Through 2017-I Management Ltd.	<b>(30,689)</b>	-
	<b>\$ (212,922)</b>	<b>\$ (193,128)</b>

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**12. Taxes**

The net tax provision differs from that expected by applying the combined federal and provincial tax rates of 26% (2016 – 26%) to profit before taxes for the following reasons:

	<b>2017</b>	<b>2016</b>
Loss before tax	\$ (1,393,675)	\$ (77,400)
Combined federal and provincial tax rate	<b>26%</b>	26%
Expected tax recovery	<b>(362,355)</b>	(20,124)
Meals and entertainment	<b>1,269</b>	138
Tax adjustment from rate change and other	<b>11,999</b>	(15,548)
Change in deferred tax benefits not recognized	<b>(201,159)</b>	133,357
Tax (recovery) expense	<b>\$ (550,246)</b>	\$ 97,823

The following provides the details of unrecognized deductible temporary differences and unused losses for which no deferred tax asset has been recognized:

	<b>2017</b>	<b>2016</b>
Deferred tax assets (liabilities)		
Non-capital losses	\$ <b>9,388,265</b>	\$ 10,939,349
Property and equipment	<b>6,448,726</b>	6,320,002
Capital losses	<b>225,763</b>	259,539
Net deferred tax assets not recognized	<b>\$ 16,062,754</b>	\$ 17,431,922

The Company has capital loss carryforwards of \$246,260 (2016 - \$259,539). The Company's non-capital losses of \$9,388,265 (2016 - \$10,939,349) expire between 2017 and 2037.

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**13. Related Party Transactions**

Balances and transactions between Berkley and its subsidiaries have been eliminated on consolidation. Details of transactions with parties related by virtue of common management are disclosed below.

<b>Due to related parties:</b>	<b>2017</b>	<b>2016</b>
Directors, management and other	(104,604)	(145,104)
Solar High Yield Projects #1 (2012) Ltd.	(1,544,753)	(1,073,421)
Solar Flow-Through 2013-I Limited Partnership	(84,029)	(83,929)
Solar Flow-Through Project #1 (2013) Ltd.	(86,901)	(84,500)
Solar Flow-Through 2014-I Limited Partnership	(575,111)	(422,329)
Solar Flow-Through (2014) Ltd.	(250,459)	(200,000)
Solar Flow-Through 2015-I Limited Partnership	(560,072)	(123,000)
Solar Flow-Through (2015) Ltd.	(295,840)	(275,500)
Solar Flow-Through 2016-I Limited Partnership	(1,318,572)	(835,000)
Solar Flow-Through (2016) Ltd.	(510,473)	(188,000)
	<b>(5,330,814)</b>	<b>(3,430,783)</b>

<b>Due from related parties:</b>	<b>2017</b>	<b>2016</b>
Solar Flow-Through 2012-I Limited Partnership	647,498	504,349
Solar High Yield Projects #1 (2012) Ltd.	522,124	524,089
Solar Flow-Through 2013-I Limited Partnership	856,091	795,954
Solar Flow-Through Project #1 (2013) Ltd.	2,169	1,200
Solar Flow-Through 2014-I Limited Partnership	953,065	430,305
Solar Flow-Through (2014) Ltd.	25,686	25,354
Solar Flow-Through 2015-I Limited Partnership	261,489	446,245
Solar Flow-Through 2016-I Limited Partnership	2,260,770	1,119,905
Solar Flow-Through (2016) Ltd.	1,347	3,500
Solar Flow-Through (2017-I) Ltd.	1,188	-
Solar Flow-Through (2017-I) Limited Partnership	59,160	-
Solar Flow-Through (2017-A) Limited Partnership	157,679	-
	<b>5,748,266</b>	<b>3,850,901</b>

- a) Due to related parties consists of \$85,500 (2016 - \$145,104) due to directors and management of Berkley for director fees, consulting fees and expenses.
- b) During the year, Solar Flow-Through 2012-I Management Ltd. earned \$83,422 (2016 - \$69,792) of consulting revenues from Solar Flow-Through 2012-I Limited Partnership in accordance with the management agreement dated August 17, 2012 based on:
- i. 1/12 of 1.5% of the gross proceeds from cumulative units issued to date for the investment and development of solar photovoltaic power generation projects, and
  - ii. 1/12 of 1.5% of Solar Flow-Through 2012-I Limited Partnership's share of debt raised in connection with financing the development of solar photovoltaic power generation projects, adjusted for equity ownership and economic interest by way of funding and royalty agreements.

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**BERKLEY RENEWABLES INC.**  
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**13. Related Party Transactions** *(continued)*

- c) During the year, Solar Flow-Through 2013-I Management Ltd. reversed \$nil (2016 - \$294,574) of previously recorded consulting revenues to Solar Flow-Through 2013-I Limited Partnership in accordance with the management agreement dated September 30, 2013 based on the amount by which 15% of the gross proceeds from cumulative units issued for the investment and development of solar photovoltaic power generation projects as at eighteen months from the date of the last offering exceeds the eligible expenses incurred up to that date. During the year ended December 31, 2016, Solar Flow-Through 2013-I Management Ltd. received the calculation of eligible expenses from Solar Flow-Through 2013-I Limited Partnership which resulted in this reversal of consulting revenues.
- d) During the year, Solar Flow-Through 2014-I Management Ltd. earned \$229,362 (2016 - \$145,809) of consulting revenues from Solar Flow-Through 2014-I Limited Partnership in accordance with the management agreement dated October 29, 2014 based on:
- i. 1/4 of 1.5% of the gross proceeds less 7.5% of the gross proceeds from cumulative units issued to date for the investment and development of solar photovoltaic power generation projects, and
  - ii. 1/4 of 1.5% of Solar Flow-Through 2014-I Limited Partnership's share of debt raised in connection with financing the development of solar photovoltaic power generation projects, adjusted for equity ownership and economic interest by way of funding and royalty agreements.
- e) During the year, Solar Flow-Through 2015-I Management Ltd. earned \$238,002 (2016 - \$99,427) of consulting revenues from Solar Flow-Through 2015-I Limited Partnership in accordance with the management agreement dated February 27, 2015 based on:
- i. 1/4 of 1.0% of the gross proceeds less 7.5% of the gross proceeds from cumulative units issued to date for the investment and development of solar photovoltaic power generation projects, and
  - ii. 1/4 of 1.0% of Solar Flow-Through 2015-I Limited Partnership's share of debt raised in connection with financing the development of solar photovoltaic power generation projects, adjusted for equity ownership and economic interest by way of funding and royalty agreements.
- f) During the year, Solar Flow-Through 2016-I Management Ltd. earned \$114,658 (2016 - \$990,208) of consulting revenues from Solar Flow-Through 2016-I Limited Partnership in accordance with the management agreement dated May 26, 2016 based on:
- i. 1/4 of 1.0% of the gross proceeds less 7.5% of the gross proceeds from cumulative units issued to date for the investment and development of solar photovoltaic power generation projects, commencing on September 30, 2016, and
  - ii. 1/4 of 1.0% of Solar Flow-Through 2016-I Limited Partnership's share of debt raised in connection with financing the development of solar photovoltaic power generation projects, adjusted for equity ownership and economic interest by way of funding and royalty agreements, and
  - iii. the amount by which 7.5% of the gross proceeds from cumulative units issued for the investment and development of solar photovoltaic power generation projects exceeds the eligible expenses incurred as at December 31, 2016.

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**13. Related Party Transactions** *(continued)*

- g) During the year, Solar Flow-Through 2017-A Management Ltd. earned \$222,990 (2016 - \$nil) of consulting revenues from Solar Flow-Through 2017-I Limited Partnership in accordance with the management agreement dated February 27, 2017 based on:
- i. 1/4 of 1.0% of the gross proceeds less 7.5% of the gross proceeds from cumulative units issued to date for the investment and development of solar photovoltaic power generation projects, commencing on September 30, 2017, and
  - ii. 1/4 of 1.0% of Solar Flow-Through 2017-A Limited Partnership's share of debt raised in connection with financing the development of solar photovoltaic power generation projects, adjusted for equity ownership and economic interest by way of funding and royalty agreements, and
  - iii. the amount by which 7.5% of the gross proceeds from cumulative units issued for the investment and development of solar photovoltaic power generation projects exceeds the eligible expenses incurred as at December 31, 2017.
- h) During the year, Solar Flow-Through 2017-I Management Ltd. earned \$836,332 (2016 - \$nil) of consulting revenues from Solar Flow-Through 2017-I Limited Partnership in accordance with the management agreement dated February 27, 2017 based on:
- i. 1/4 of 0.9% of the gross proceeds less 7.5% of the gross proceeds from cumulative units issued to date for the investment and development of solar photovoltaic power generation projects, commencing on September 30, 2017, and
  - ii. 1/4 of 0.9% of Solar Flow-Through 2017-I Limited Partnership's share of debt raised in connection with financing the development of solar photovoltaic power generation projects, adjusted for equity ownership and economic interest by way of funding and royalty agreements, and
  - iii. the amount by which 7.5% of the gross proceeds from cumulative units issued for the investment and development of solar photovoltaic power generation projects exceeds the eligible expenses incurred as at December 31, 2017.
- i) Berkley takes part in a cost sharing arrangement to reimburse Oniva International Services Corporation ("Oniva"), a private company owned by public companies having common Directors, for a variable percentage of its overhead expenses, to reimburse 100% of its out-of-pocket expenses incurred on behalf of Berkley, and to pay a percentage fee based on the total overhead and corporate expenses. The agreement may be terminated with one-month notice by either party. Rent, administrative services, office supplies and accounting charges totalling \$79,342 (2016 - \$63,125) were charged to the Company by Oniva during the year.

Related party transactions were in the normal course of operations and have been initially measured at fair value, are non-interest bearing and are due on demand. At December 31, 2017, \$24,931 (2016 - \$90,604) was included in accounts payable and accrued liabilities for related party transactions noted above.

**Compensation of Key Management Personnel**

The remuneration of directors and other members of key management personnel during the years consisted of salaries and bonuses, which are included in management fees and consulting fees:

	2017	2016
	\$	\$
Compensation	1,044,948	782,830

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**14. Supplemental Cash Flow Information**

	2017	2016
	\$	\$
Change in non-cash working capital items:		
Trade and other receivables	-	686
Prepaid expenses	2,614	(4,327)
Accounts payable and accrued liabilities	1,448,601	(196,158)
Net change in non-cash working capital items	1,451,215	(199,799)

**15. Financial Instruments and Financial Risk Management**

***Fair Values***

The Company's financial instruments include cash and cash equivalents, due from related parties, investment classified as fair value through profit or loss, accounts payable and accrued liabilities, due to related parties, and notes payable.

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 calculated using a Black-Scholes option-pricing model. Inputs to the model include 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 and investment classified as fair value through profit or loss are recorded based on Level 1 of the fair value hierarchy. The shares held in RepliCel are recorded based on Level 1 of the fair value hierarchy. The warrant component of the units held in RepliCel are recorded based on Level 2 of the fair value hierarchy using the Black Scholes valuation technique.

The carrying value of due from related parties, accounts payable and accrued liabilities, notes payable and due to related parties equals fair value due to the short-term nature of these balances.

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. The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board of Directors has implemented and monitors compliance with the risk management policies as set out herein:

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**15. Financial Instruments and Financial Risk Management** *(continued)*

***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. The carrying amount of cash and cash equivalents and due from related parties represents the maximum credit exposure. All of the Company's trade and other receivables are with related parties. As at December 31, 2017, the maximum credit exposure is the carrying amount of the cash and cash equivalents of \$569,387 (2016 - \$270,313) that is deposited in chartered banks. Management has assessed the risk of loss to be minimal.

The Company did not provide for any doubtful accounts, however wrote-off \$nil of trade and other receivables (2016 - \$34,957) that were deemed to be uncollectible. The Company would only choose to write-off a receivable balance after all reasonable avenues of collection had been exhausted.

***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's financial liabilities are comprised of accounts payable and accrued liabilities, due to related parties and notes payable, which have expected maturities of less than one year.

***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 ("USD") for which the related expenses and accounts payable balances are subject to exchange rate fluctuations. As at December 31, 2017 and 2016, the following items are denominated in USD:

	<b>2017</b>	2016
	<b>CAD\$</b>	CAD\$
Cash and cash equivalents	-	719
Accounts payable and accrued liabilities	<b>22,770</b>	3,192

The Company's foreign exchange sensitivity is in relation to movements of the USD against the Canadian dollar. Based on USD balances as at December 31, 2017 and 2016, a 5% increase/decrease of the USD against the Canadian dollar would not result in a material increase/decrease in profit or loss.

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**15. Financial Instruments and Financial Risk Management** *(continued)*

**Market risk**

(ii) Commodity price risk

Commodity price risk is the risk that the cash flows and operations of the Company will fluctuate as a result of changes in commodity prices. Significant changes in commodity prices can also impact the Company'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.

The Company's financial performance is closely linked to crude oil and natural gas prices. While the Company 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. Given production levels, a 10% change in commodity prices would not have a material effect on profit or loss.

**16. Capital Management**

The Company's objective is to maintain access to sources of capital with which to finance its operations. The Company manages its capital structure and makes changes to it in light of changes in economic conditions and the risk characteristics of the underlying investments. In the management of capital, the Company considers items included in shareholders' equity and long term debt. The Company will balance its overall capital structure through new share issuances or by undertaking other activities as deemed appropriate in the specific circumstances. At December 31, 2017, the Company was not subjected to any externally imposed capital requirements.

**17. General and Administrative Expenses**

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	2017	2016
Management fees	39,000	205,000
Professional fees	155,595	54,620
Consulting fees	2,228,969	533,391
Administrative, office services and premises	473,256	181,604
Depreciation (Note 6)	453	610
Shareholder information	19,500	24,496
Filing and transfer agent fees	3,865	18,939
	<b>2,920,638</b>	<b>1,018,660</b>

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