

**BERKLEY RENEWABLES INC.
(Formerly Berkley Resources Inc.)**

CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2012 and 2011

(Expressed in Canadian Dollars)

Index

Management's Responsibility

Independent Auditors' Report

Consolidated Statement of Financial Position

Consolidated Statement of Loss and Comprehensive (Loss) Income

Consolidated Statement of Changes in Shareholders' Equity

Consolidated Statement of Cash Flows

Notes to the Consolidated Financial Statements

Management's Responsibility

To the Shareholders of Berkley Renewables Inc.:

Management is responsible for the preparation, integrity and fair presentation of the consolidated financial statements. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and necessarily include amounts based on management's informed judgments and estimates within the acceptable limits of materiality. Financial information contained in management's discussion and analysis is consistent with the consolidated financial statements.

In discharging its responsibilities for the integrity and fairness of the consolidated financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of the consolidated financial statements.

The Board of Directors, through its Audit Committee, is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control systems. The Audit Committee is composed of independent directors who are not employees of the Company. The Audit Committee is responsible for reviewing the consolidated financial statements and recommending them to the Board of Directors for approval. To discharge its duties the Audit Committee meets regularly with management and MNP LLP, an independent firm of Chartered Accountants, to discuss internal controls, accounting and financial reporting processes, audit plans and financial matters. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the consolidated financial statements for issuance to the shareholders. The Audit Committee also considers the independence of the external auditors and reviews their fees.

MNP LLP, is responsible for auditing the consolidated financial statements and expressing their opinion thereon and their report is presented separately. The external auditors have full and free access to, and meet regularly with, management and the Audit Committee.

(signed) "Matthew Wayrynen"

Chief Executive Officer

(signed) "Pamela Saulnier"

Chief Financial Officer

April 25, 2013

Independent Auditors' Report

To the Shareholders of Berkley Renewables Inc.:

We have audited the accompanying consolidated financial statements of Berkley Renewables Inc. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2012 and 2011, the consolidated statements of loss and comprehensive (loss) income, changes in shareholders' equity and cash flows for the years ended December 31, 2012 and 2011, and notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for 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 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 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 financial position of Berkley Renewables Inc. and its subsidiaries as at December 31, 2012 and 2011 and their financial performance and their 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 indicates that the Company has a net loss for the year of \$788,402 and negative cash flows from operating activities of \$843,821. In addition, the Company has an accumulated deficit of \$16,283,709 as at December 31, 2012. 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.

Calgary, Alberta
April 25, 2013

MNP LLP
Chartered Accountants

BERKLEY RENEWABLES INC. (Formerly Berkley Resources Inc.)
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at:

	December 31, 2012	December 31, 2011
ASSETS		
Current assets		
Cash and cash equivalents	\$ 462,365	\$ 674,327
Trade and other receivables (Note 18)	164,215	132,367
Due from related parties (Note 16)	15,000	-
Marketable securities	8,181	53,717
Prepaid expenses	1,500	56,855
Total assets	651,261	917,266
Investment in RepliCel Life Sciences (Note 5)	684,994	2,194,310
Petroleum and natural gas interests (Note 6)	135,569	147,495
Exploration and evaluation properties (Note 7)	379,129	379,129
Other property and equipment (Note 8)	5,361	7,211
Total non-current assets	1,205,053	2,728,145
Total assets	\$ 1,856,314	3,645,411
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$ 184,622	\$ 233,940
Due to related parties (Note 16)	82,909	41,885
Total current liabilities	267,531	275,825
Decommissioning liability (Note 9)	88,162	85,623
Total liabilities	355,693	361,448
SHAREHOLDERS' EQUITY		
Share capital (Note 10)	15,279,367	14,848,154
Share subscription (Note 10)	38,500	-
Warrants (Note 12)	80,287	-
Contributed surplus	1,733,013	1,733,013
Deficit	(16,283,709)	(15,670,816)
Accumulated other comprehensive income	249,370	1,794,310
	1,096,828	2,704,661
Non-controlling interest (Note 14)	403,793	579,302
Total shareholders' equity	1,500,621	3,283,963
Total liabilities and shareholders' equity	\$ 1,856,314	\$ 3,645,411
Going concern (Note 1)		
Subsequent events (Note 20)		

Approved by the Board of Directors and authorized for issue on April 25, 2013

"Matt Wayrynen"
 Director

"Tyrone Docherty"
 Director

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

**(BERKLEY RENEWABLES INC. (Formerly Berkley Resources Inc.)
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE (LOSS) INCOME**

For the years ended:

	December 31, 2012	December 31, 2011
Oil and gas revenue		
Petroleum and natural gas sales	\$ 37,749	\$ 58,110
Royalty expense	(1,490)	(1,300)
Net oil and gas revenue	36,259	56,810
Oil and gas production expenses		
Operating costs	23,071	19,190
Depletion and accretion (Notes 6 & 9)	14,465	24,240
	37,536	43,430
Net oil and gas (loss) income	(1,277)	13,380
General and administrative expenses		
Management fees (Note 16)	493,765	498,424
Professional fees	37,204	206,384
Consulting fees	106,668	59,851
Administrative, office services and premises	222,013	299,593
Depreciation (Note 8)	1,850	4,704
Shareholder information	18,624	17,536
Filing and transfer agent fees	19,853	16,067
	899,977	1,102,559
Other income (expenses)		
Realized foreign exchange (loss) gain	(501)	6,631
Bad debt (expense) recovery	(14,439)	36,405
Gain on sale of wellsite equipment (Note 6)	63,000	-
Unrealized loss on marketable securities	(4,061)	(388,633)
Realized gain on marketable securities	14,360	24,447
Loss on impairment (Note 6)	-	(99,067)
Other income	18,869	22,202
	77,228	(398,015)
Loss before tax	(824,026)	(1,487,194)
Income tax recovery (Note 15)	35,624	-
Net loss for the year	(788,402)	(1,487,194)
Other comprehensive income		
Unrealized (loss) gain on investment, net of tax	(1,544,940)	1,794,310
Total comprehensive (loss) income	\$ (2,333,342)	\$ 307,116
Net loss attributed to:		
Owners of the parent	(612,893)	(1,115,231)
Non-controlling interest (Note 14)	(175,509)	(371,963)
	(788,402)	(1,487,194)
Total comprehensive (loss) income attributed to:		
Owners of the parent	(2,157,833)	679,079
Non-controlling interest (Note 14)	(175,509)	(371,963)
	(2,333,342)	307,116
Basic and diluted net loss per share (Note 13)	\$ (0.10)	\$ (0.24)

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

BERKLEY RENEWABLES INC. (Formerly Berkley Resources Inc.)
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Share Capital	Share Subscription	Warrants	Contributed Surplus	Deficit	Non- controlling interest	Accumulated other comprehensive income	Total
Balance as at December 31, 2010	\$ 14,848,154	\$ -	\$ -	\$ 1,733,013	\$ (14,555,585)	\$ 951,265	\$ -	\$ 2,976,847
Net loss for the year	-	-	-	-	(1,115,231)	-	-	(1,115,231)
Unrealized gain on investment	-	-	-	-	-	-	1,794,310	1,794,310
Non-controlling interest	-	-	-	-	-	(371,963)	-	(371,963)
Balance as at December 31, 2011	\$ 14,848,154	\$ -	\$ -	\$ 1,733,013	\$ (15,670,816)	\$ 579,302	\$ 1,794,310	\$ 3,283,963
Private placement, September 18, 2012	431,213	-	-	-	-	-	-	431,213
Share subscription, January 11, 2013	-	38,500	-	-	-	-	-	38,500
Fair value of private placement warrants	-	-	80,287	-	-	-	-	80,287
Net loss for the year	-	-	-	-	(612,893)	-	-	(612,893)
Unrealized loss on investment	-	-	-	-	-	-	(1,544,940)	(1,544,940)
Non-controlling interest	-	-	-	-	-	(175,509)	-	(175,509)
Balance as at December 31, 2012	\$ 15,279,367	\$ 38,500	\$ 80,287	\$ 1,733,013	\$ (16,283,709)	\$ 403,793	\$ 249,370	\$ 1,500,621

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

BERKLEY RENEWABLES INC. (Formerly Berkley Resources Inc.)**CONSOLIDATED STATEMENTS OF CASH FLOWS**

For the years ended:

	December 31, 2012	December 31, 2011
CASH PROVIDED BY (USED IN) FROM CONTINUING OPERATIONS		
OPERATING ACTIVITIES		
Net loss for the year	\$ (788,402)	\$ (1,487,194)
Items not requiring cash in the year		
Income tax recovery (Note 15)	(35,624)	-
Depreciation, depletion and accretion (Notes 6, 8 & 9)	16,315	28,944
Loss on impairment (Note 6)	-	99,067
Unrealized loss on marketable securities	4,061	388,633
Realized gain on marketable securities	(14,360)	(24,447)
	(818,010)	(994,997)
Change in non-cash working capital (Note 17)	(25,811)	(142,645)
Cash used in operating activities	(843,821)	(1,137,642)
INVESTING ACTIVITIES		
Proceeds on sale of marketable securities	55,835	739,100
Purchase of oil and gas property and equipment	-	(66,048)
Cash received from investing activities	55,835	673,052
FINANCING ACTIVITIES		
Non-brokered private placements (Note 10)	511,500	-
Share subscription received in advance (Note 10)	38,500	-
Advances from related parties (Note 16)	355,926	11,198
Repayments to related parties (Note 16)	(329,902)	-
Cash received from financing activities	576,024	11,198
Increase in cash and cash equivalents	(211,962)	(453,392)
Cash and cash equivalents, beginning of year	674,327	1,127,719
Cash and cash equivalents, end of year	\$ 462,365	\$ 674,327

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

BERKLEY RENEWABLES INC. (Formerly Berkley Resources Inc.)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2012 and 2011

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 photovoltaic power generation. 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 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.

On November 7, 2011, Berkley acquired 501 common shares of Solar Flow-Through 2012-I Management Ltd. ("SFT2012 Management Ltd.") representing a 51% interest. As part of the acquisition, SFT2012 Management Ltd. became a direct subsidiary of the Company. On September 24, 2012, Berkley acquired an additional 449 common shares in SFT2012 Management Ltd. for a total interest of 95% as at December 31, 2012.

On November 7, 2011, Berkley acquired 501 common shares of Solar Flow-Through 2012-I General Partner Ltd. ("SFT2012 GP Ltd.") representing a 51% interest. As part of the acquisition, SFT2012 GP Ltd. became a direct subsidiary of the Company. On September 24, 2012, Berkley acquired an additional 449 common shares in SFT2012 GP Ltd. for a total interest of 95% as at December 31, 2012.

The consolidated financial statements include the financial statements of Berkley Renewables Inc. and the subsidiaries listed in the following table (hereinafter together referred to as the "Company"):

Name	Country of Incorporation	% equity interest	
		2012	2011
American Uranium Corp.	United States of America	53%	53%
Solar Flow-Through 2012-I – General Partner Ltd.	Canada	95%	51%
Solar Flow-Through 2012-I – Management Ltd.	Canada	95%	51%

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.

The Company has a net loss for the year of \$788,402 and negative cash flows from operating activities of \$843,821. In addition, the Company has an accumulated deficit of \$16,283,709 as at December 31, 2012. 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.

The Company's ability to continue as a going concern is dependent upon its ability to raise additional capital through the issuance of treasury shares or debt and achieve profitable operations in the future. The management of the Company has developed a strategy to address this uncertainty, including additional equity and/or debt financing; however, there are no assurances that any such financing can be obtained on favourable terms, if at all.

If the going concern assumption were not appropriate for these 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 issue on April 25, 2013 by the Directors of Berkley.

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 the closing date of December 31, 2012.

b) Basis of measurement:

The consolidated financial statements of the Company are stated and recorded in Canadian dollars (\$) which is the Company's functional and presentation currency and have been prepared on a historical cost basis, except for financial instruments and share-based payment transactions that have been measured at fair value.

c) Use of estimates and judgements:

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 judgements 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. Readers are cautioned that the following list is not exhaustive and other items may also be affected by estimates and judgements.

Significant judgments

CGU determination

The Company's assets are aggregated into cash-generating-units (CGUs) based on their ability to generate largely independent cash inflows. These CGU's are used for impairment testing. CGUs are determined by similar geological structure, shared infrastructure and geographical proximity.

Significant estimates and assumptions

Impairment of non-financial assets

The Company assesses its petroleum and natural gas ("P&NG") and exploration and evaluation ("E&E") assets for possible impairment if there are events or changes in circumstances that indicate the carrying values of the assets may not be recoverable. Such indicators include changes in the Company's business plans, changes in commodity prices, evidence of physical damage and significant downward revisions to estimated recoverable volumes or increases in estimated future development expenditures. The assessment for impairment for P&NG and E&E assets involves comparing the carrying value of the CGU with the higher of value in use and fair value less costs to sell. Determination as to whether and how much an asset is impaired involves management estimates on highly uncertain matters such as future commodity prices, the effects of inflation on operating expenses, discount rates, production profiles and the outlook for regional supply-and-demand conditions for crude oil, natural gas and liquids. Impairment is recognized in earnings in the period in which carrying amount exceeded the recoverable amount.

2. Basis of Preparation *(continued)*

c) Use of estimates and judgements *(continued)*:

Share-based payment transactions

The Company follows the fair value method to record share-based payment expense with respect to options granted. The fair value of each option granted is estimated based on the date of grant and a provision for the cost is provided for with a corresponding credit to reserves in shareholders' equity over the vesting period of the option agreement. Forfeitures are estimated for each tranche, and adjusted as required to reflect actual forfeitures that have occurred in the period. In order to record share-based payment expense, the Company estimates the fair value of share options granted using assumptions related to interest rates, expected lives of the options, volatility of the underlying security, forfeitures and expected dividend yields.

Income 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.

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 credit worthiness, 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.

2. Basis of Preparation *(continued)*

c) Use of estimates and judgements *(continued)*:

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 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 fair 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.

Depletion and depreciation

Amounts recorded for depreciation are based on estimates including economic life of the asset and residual values of the asset at the end of its economic life. Depletion of resource assets is measured over the life of proved and probable reserves on a unit-of production basis and commences when the wells are substantively complete and after commercial production has begun. Reserve estimates and the associated future capital can have a significant impact on earnings, as these are key components to the calculation of depletion. A downward revision in the reserve estimate or an upward revision to future capital would result in increased depletion, reduced earnings and reduced carrying value of petroleum and natural gas property assets.

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 the Company.

a) Basis of consolidation

The consolidated financial statements include the accounts of Berkley and its subsidiaries and the proportionate share of the assets, liabilities, revenues, expenses and cash flows of its joint ventures as at December 31, 2012 and 2011. The subsidiaries are 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. 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 net loss and comprehensive (loss) income 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, trade and other receivables, due from related parties, marketable securities, investment in RepliCel Life Sciences, accounts payable and accrued liabilities 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)*

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 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 comprehensive (loss) income. When a loan and receivable is uncollectible, it is written off against the allowance account for trade and other receivables. The Company has designated trade and other receivables and 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 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 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 income. 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 income is transferred to profit or loss. The Company's available-for-sale financial assets include the investment in RepliCel Life Sciences.

Other financial liabilities:

Other financial liabilities include accounts payable and accrued liabilities and due to related parties, and are recognized initially at fair value and 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 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, 2012 and 2011 consisted entirely of cash.

3. Significant Accounting Policies *(continued)*

d) 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.

e) Petroleum and natural gas interests

P&NG interests 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 and probable 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 consolidated statement of loss and comprehensive (loss) income in the period incurred.

f) Exploration and evaluation properties

E&E properties 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.

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" ("IAS 36") 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 loss and comprehensive (loss) income.

3. Significant Accounting Policies *(continued)*

g) Other property and equipment

Other property and equipment

Other property and equipment consists of computer equipment and furniture, fixtures and equipment, and leasehold improvements 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

h) Impairment of assets

Non-financial assets

At each financial reporting date, the carrying amounts of P&NG and 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 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 to the Company and the risks specific to the asset. Fair value less cost to sell is derived by estimating the discounted after-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 participants 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 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. 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.

3. Significant Accounting Policies *(continued)*

i) 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.

j) 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.

k) 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.

3. Significant Accounting Policies *(continued)*

l) 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 estimated cost are capitalized as P&NG. 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 to which it relates.

4. Recent Accounting Pronouncements

Standards issued but not yet effective up to the date of issuance of the Company's consolidated financial statements 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 intends to adopt those standards when they become effective.

- (i) IFRS 9 - Financial Instruments: issued in October 2010, is the first phase in the replacement of IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 revises the current multiple classification and measurement models for financial assets and liabilities and limits the models to two: amortized cost or fair value. The new standard is effective for the Company's interim and annual consolidated financial statements commencing January 1, 2015. The Company is currently assessing the impact of this standard on its consolidated financial statements.
- (ii) IFRS 10 - Consolidated Financial Statements: issued in May 2011, identifies the concept of control as the determining factor in whether an investee should be included within the consolidated financial statements of the parent. The guidance requires an entity to consolidate an investee when it has exposure or rights to variable returns from its involvement with the investee and has the ability to affect those returns. The standard applies to all investees, including special purpose entities and replaces SIC- 12 Consolidation Special Purpose Entities and parts of IAS 27 Consolidated and Separate Financial Statements. The new standard is effective for the Company's interim and annual consolidated financial statements commencing January 1, 2013. The Company is currently assessing the impact of this standard on its consolidated financial statements.
- (iii) IFRS 11 - Joint Arrangements: issued in May 2011, addresses two forms of joint arrangements where there is joint control: joint operations and joint ventures. In a joint operation, each venturer will recognize its share of the operation's assets, liabilities, revenues and expenses. Joint ventures will be required to use the equity method of accounting. IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities Non-Monetary Contributions from Venturers. The new standard is effective for the Company's interim and annual consolidated financial statements commencing January 1, 2013. The Company is currently assessing the impact of this standard on its consolidated financial statements.
- (iv) IFRS 12 - Disclosure of Interests in Other Entities: issued in May 2011. It is a comprehensive standard addressing disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, subsidiaries, special purpose entities and unconsolidated structured entities. The standard aims to provide information to enable users to evaluate the nature of an entity's interest in other entities and the associated risks. IFRS 12 is effective for the Company's interim and annual financial statements commencing January 1, 2013. The Company is currently assessing the impact of this standard on its consolidated financial statements.

BERKLEY RENEWABLES INC. (Formerly Berkley Resources Inc.)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2012 and 2011

4. Recent Accounting Pronouncements *(continued)*

- (v) IFRS 13 - Fair Value Measurement: issued in May 2011, replaces fair value measurement and disclosure guidance throughout individual IFRS standards with one comprehensive source of fair value measurement guidance. 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. The standard also provides a framework for measurement of fair value and establishes required disclosures. It is effective for the Company's interim and annual financial statements commencing January 1, 2013. The Company is currently assessing the impact of this standard on its consolidated financial statements.
- (vi) IAS 1 - Presentation of Items of Other Comprehensive Income: in 2011, the IASB issued amendments to IAS 1 Presentation of Financial Statements to split items of other comprehensive income (OCI) between those that are reclassified to income and those that are not. The standard is required to be adopted for annual periods beginning on or after July 1, 2012. The Company is currently assessing the impact of this standard on its consolidated financial statements.
- (vii) IAS 27 - Separate Financial Statements: the IASB issued amendments to IAS 27 Separate Financial Statements to coincide with the changes made in IFRS 10, but retains the current guidance for separate financial statements. Amendment is effective for annual periods beginning on or after January 1, 2013. The Company is currently assessing the impact of this standard on its consolidated financial statements.
- (viii) IAS 28 - Investments in Associates and Joint Ventures: the IASB issued amendments to IAS 28 Investments in Associates and Joint Ventures to coincide with the changes made in IFRS 10 and IFRS 11. Amendment is effective for annual periods on or after January 1, 2013. The Company is currently assessing the impact of this standard on its consolidated financial statements.
- (ix) IFRS 7 and IAS 32 – Financial instruments: Disclosures and financial instruments: presentation to clarify the current offsetting model and develop common disclosure requirements to enhance the understanding of the potential effects of offsetting arrangements. Amendments to IFRS are effective on January 1, 2014 with retrospective application and early adoption permitted. The Company is currently assessing the impact of this standard on its consolidated financial statements.

5. Investment in RepliCel Life Sciences

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"). Each outstanding share of Trichoscience was exchanged for 2.2953 common shares of RepliCel. The common shares were being held in escrow and have been released at 15% per quarter beginning January 1, 2012.

As at December 31, 2012, there were 367,248 shares held in escrow (2011 – 918,120). The investment in common shares in RepliCel still held in escrow were measured at the fair value using the Black-Scholes pricing model which resulted in the Company recognizing an unrealized loss on investment in other comprehensive income for the year ended December 31, 2012 of \$1,544,940 (2011 unrealized gain of \$1,794,310). The following assumptions were used to measure fair value of the investment:

	2012	2011
Risk free interest rate	1.13%	0.99%
Expected volatility	81%	81%
Expected life (years)	0.13	1.13

As at December 31, 2012, 550,872 shares have been released from escrow (2011 – nil) and have been valued at RepliCel's trading price at the reporting date.

BERKLEY RENEWABLES INC. (Formerly Berkley Resources Inc.)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2012 and 2011

6. Petroleum and Natural Gas Interests

Cost or deemed cost

Balance at December 31, 2010	\$ 678,398
Additions	63,102
Change in estimate (Note 9)	7,943
Balance at December 31, 2011	749,443
Change in estimate (Note 9)	1,155
Balance at December 31, 2012	\$ 750,598

Depletion and impairment losses

Balance at December 31, 2010	\$ 480,742
Depletion	22,139
Impairment	99,067
Balance at December 31, 2011	601,948
Depletion	13,081
Balance at December 31, 2012	\$ 615,029

Net book value

At December 31, 2011	\$ 147,495
At December 31, 2012	\$ 135,569

During the year ended December 31, 2012, the Company sold well site equipment for proceeds of \$63,000. The wellsite equipment had no carrying value and the full amount of the proceeds was recorded as a gain in the statement of loss and comprehensive (loss) income.

As at December 31, 2012 oil and gas properties were impaired by \$nil (2011 - \$99,067). The impairment resulted from a significant decrease in the reserve volumes allocated to oil and gas properties as at December 31, 2011. 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.

The impairment test was based on the following future prices at December 31, 2011 of the Company's independent reserve evaluator:

Year	Natural gas – Alberta AECO Average Price Current (\$CDN/mcf)
2012	3.50
2013	4.10
2014	4.70
2015	5.15
2016	5.55
2017	6.00
2018	6.40
2019	6.90
2020	7.40
2021	7.75

Increases after 2022 approximate 2% per year.

BERKLEY RENEWABLES INC. (Formerly Berkley Resources Inc.)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2012 and 2011

7. Exploration and Evaluation Assets

Balance at December 31, 2010, 2011 and 2012	\$ 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.

8. Other Property and Equipment

	Computer equipment	Furniture, fixtures and equipment	Leasehold improvements	Total
Cost or deemed cost				
Balance at December 31, 2010	\$ 33,782	\$ 9,199	\$ 4,078	\$ 47,059
Additions	2,942	-	-	2,942
Balance at December 31, 2011	36,724	9,199	4,078	50,001
Balance at December 31, 2012	\$ 36,724	\$ 9,199	\$ 4,078	\$ 50,001

	Computer equipment	Furniture, fixtures and equipment	Leasehold improvements	Total
Depreciation and impairment loss				
Balance at December 31, 2010	\$ 29,395	\$ 7,672	\$ 1,019	\$ 38,086
Depreciation	1,362	283	3,059	4,704
Balance at December 31, 2011	30,757	7,955	4,078	42,790
Depreciation	1,620	230	-	1,850
Balance at December 31, 2012	\$ 32,377	\$ 8,185	\$ 4,078	\$ 44,640

Net book value

At December 31, 2011	\$ 7,211
At December 31, 2012	\$ 5,361

BERKLEY RENEWABLES INC. (Formerly Berkley Resources Inc.)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2012 and 2011

9. 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:

	2012	2011
Balance, beginning of year	\$ 85,623	\$ 75,596
Accretion	1,384	2,084
Change in estimates	1,155	7,943
Balance, end of year	\$ 88,162	\$ 85,623

Berkley estimates the total undiscounted amount of cash flows required to settle its decommissioning liability is approximately \$81,879 (2011 - \$81,879) 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 1.38% - 2.36% (2011 - 1.52% - 4.04%) was used to calculate the fair value of the decommissioning liability.

10. Share Capital

a) Authorized

Unlimited Class A common shares, without par value.

b) Issued

	Number of shares	Amount
Balance as at December 31, 2010 and 2011 (i)	4,613,951	\$ 14,848,154
Private placement (ii)	5,115,000	511,500
Fair value of warrants (ii)	-	(80,287)
Balance as at December 31, 2012	9,728,951	\$ 15,279,367

- i. In April 2012, the Company effected a share consolidation of its share capital on a 10 for 1 basis, consolidating its 46,139,482 outstanding common shares to 4,613,951 common shares (fraction adjustment of three). All references to common stock in these consolidated financial statements have been changed to reflect the share consolidation.
- ii. On September 18, 2012, the Company completed a non-brokered private placement and issued 5,115,000 units for gross proceeds of \$511,500. Each unit consists of one common share and one half of one common share purchase warrant. Each whole warrant entitles the holder thereof to purchase one additional common share of the Company at a price of \$0.20 per share for a period of two years following the close of the private placement. The fair value of the warrants issued using the Black-Scholes model was \$80,287, the following assumptions were used; volatility of 91.67%, expected life of two years and risk free interest rate of 1.18% (Note 12).

c) Share subscription

At December 31, 2012, the Company had received advance funds of \$38,500 for 385,000 units in non-brokered private placement that was not closed until January 11, 2013. See subsequent events (Note 19).

BERKLEY RENEWABLES INC. (Formerly Berkley Resources Inc.)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2012 and 2011

11. 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.

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

	December 31, 2012		December 31, 2011	
	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 year	35,000	\$5.60	79,000	\$5.60
Activity in the year:				
Expired	(35,000)	(\$5.60)	(44,000)	\$5.60
Cancelled	-	-	-	-
Balance outstanding, end of year	-	-	35,000	\$5.60
Exercisable, end of year	-	-	35,000	\$5.60

12. Warrants

The following table summarizes information about warrants outstanding as at:

	December 31, 2012		December 31, 2011	
	Number of Shares Subject to Warrants	Exercise price range	Number of Shares Subject to Warrants	Exercise price range
Balance outstanding, beginning of year	-	-	2,137,000	\$1.00
Issued (Note 10(ii))	2,557,500	\$0.20	-	-
Expired	-	-	(2,137,000)	\$1.00
Balance outstanding, end of year	2,557,500	\$0.20	-	-

BERKLEY RENEWABLES INC. (Formerly Berkley Resources Inc.)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2012 and 2011

13. Loss Per Share

Basic income or loss per share amounts are calculated by dividing the net income or 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's dilutive instruments consist of common share purchase warrants and stock options.

	2012	2011
Net loss	\$ (612,893)	\$ (1,115,231)
Weighted average shares outstanding	6,071,376	4,613,951
Basic and diluted loss per common share	\$ (0.10)	\$ (0.24)

The basic and diluted loss per share amounts are the same as the common share purchase warrants and stock options were excluded from the dilution calculation, as they were anti-dilutive.

14. Non-Controlling Interest

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

	2012	2011
American Uranium Corp.	\$ 422,557	\$ 579,302
Solar Flow-Through 2012-I – General Partner Ltd	(2,669)	-
Solar Flow-Through 2012-I – Management Ltd.	(16,095)	-
	\$ 403,793	\$ 579,302

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

	2012	2011
American Uranium Corp.	\$ 156,745	\$ 371,963
Solar Flow-Through 2012-I – General Partner Ltd	2,669	-
Solar Flow-Through 2012-I – Management Ltd.	16,095	-
	\$ 175,509	\$ 371,963

BERKLEY RENEWABLES INC. (Formerly Berkley Resources Inc.)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2012 and 2011

15. Income Taxes

The net income tax provision differs from that expected by applying the combined federal and provincial tax rates of 25.0% (2011 – 26.5%) to profit before income taxes for the following reasons:

	2012	2011
Loss before tax	\$ (824,026)	\$ (1,487,194)
Combined federal and provincial income tax rate	25.00%	26.50%
Expected income tax recovery	(206,007)	(394,106)
Meals and entertainment	1,705	1,243
Interest and penalties	-	-
Tax adjustment from rate change and other	(195,768)	7,891
Change in deferred tax benefits not recognized	364,446	384,972
	\$ (35,624)	\$ -

Deferred tax assets and liabilities are attributable to the following:

	2012	2011
Deferred tax assets (liabilities)		
Non-capital losses	\$ 2,856,288	\$ 2,635,039
Property and equipment	1,494,458	1,526,112
Decommissioning liabilities	22,040	21,406
Cumulative eligible capital	1,131	1,216
Marketable securities	18,445	(2,816)
Investments	(35,624)	(224,289)
Net deferred tax assets	4,356,738	3,956,668
Deferred tax benefits not recognized	(4,356,738)	(3,956,668)
	\$ -	\$ -

The Company's non-capital losses of \$8,390,957 (2011 - \$7,354,932), expire between 2015 and 2033.

BERKLEY RENEWABLES INC. (Formerly Berkley Resources Inc.)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2012 and 2011

16. Related Party Transactions

The consolidated financial statements include the financial statements of Berkley Renewables Ltd. and the subsidiaries listed below:

Name	Country of Incorporation	% equity interest	
		December 31, 2012	December 31, 2011
American Uranium Corp.	United States of America	53%	53%
Solar Flow-Through 2012-I General Partner Ltd.	Canada	95%	51%
Solar Flow-Through 2012-I Management Ltd.	Canada	95%	51%

Balances and transactions between Berkley and its subsidiaries have been eliminated on consolidation and are not disclosed in this note. Details of transactions with other related parties are disclosed below:

- Due to related parties consists of \$55,604 (2011 - \$30,500) due to Directors of Berkley for Directors fees, consulting fees and expenses. As well amounts due to Solar Flow-Through 2012-I Limited Partnership, a company under common management for \$27,305 (2011 - \$nil). Due from related parties of \$15,000 (2011 - \$nil) relates to an advance to key management personnel during the year.
- Management and consulting fees totalling \$459,189 were paid to Directors and their private companies in 2012 (2011 - \$334,745); and rent expense totalling \$19,431 (2011 - \$27,200) was paid to a company whose management is related to a Director of Berkley.
- 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.

Administrative services, office supplies and accounting charges totalling \$81,057 were paid to Oniva during the year ended December 31, 2012 (2011 - \$95,367). At year end, \$7,131 (2011 - \$14,616) of this amount was included in accounts payable and accrued liabilities.

The transactions were in the normal course of operations and have been measured at fair value. At year end, \$86,881 (2011 - \$14,616) was included in accounts payable and accrued liabilities.

Compensation of key management personnel

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

	2012 \$	2011 \$
Compensation, including bonuses	484,189	361,500
	484,189	361,500

BERKLEY RENEWABLES INC. (Formerly Berkley Resources Inc.)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2012 and 2011

17. Supplemental Cash Flow Information

	2012	2011
	\$	\$
Change in non-cash working capital items:		
Trade and other receivables	(31,848)	(48,315)
Prepaid expenses	55,355	24,154
Accounts payable and accrued liabilities	(49,318)	(118,484)
Net change in non-cash working capital items	(25,811)	(142,645)

18. 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 December 31, 2012 and 2011, the Company's financial instruments include cash and cash equivalents, trade and other receivables, due from related parties, marketable securities, investment in RepliCel Life Sciences, accounts payable and accrued liabilities and due to related parties.

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 and marketable securities are recorded based on Level 1 of the fair value hierarchy. Investment in RepliCel is recorded based on Level 1 of the fair value hierarchy for shares released from escrow and shares in escrow are recorded based on Level 2 of the fair value hierarchy. The carrying value of trade and other receivables, due from related parties, accounts payable and accrued liabilities and due to related parties equals fair value due to the short-term nature of these balances.

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

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 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. The carrying amount of cash and trade and other receivables represents the maximum credit exposure. 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 December 31, 2012, the maximum credit exposure is the carrying amount of the trade and other receivables of \$164,215 (2011 - \$132,367). As at December 31, 2012, the Company had cash of \$462,365 (2011 - \$674,327) that is deposited in a bank with a high credit rating. Management has assessed the risk of loss to be minimal. As at December 31, 2012, the Company's receivables consisted of \$140,513 from joint venture partners and other trade receivables (2011 - \$108,458) and \$23,702 (2011 - \$23,309) of revenue receivable from petroleum and natural gas marketers.

The Company did not provide for any doubtful accounts, however was required to write off \$14,439 of receivables (2011 - \$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:

	2012	2011
Not past due or impaired	\$ 77,361	\$ 65,165
Past due by less than 90 days but not impaired	4,581	5,553
Past due by more than 90 days but not impaired	82,273	61,649
	\$ 164,215	\$ 132,367

Amounts past due by more than 90 days are from Canada Revenue Agency therefore impairment would not be required as the Company expects to receive the full amount from this government agency.

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 and due to related parties, which have expected maturities of less than one year.

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

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 December 31, 2012, the following items are denominated in United States currency:

	2012	2011
	CAD\$	CAD\$
Cash and cash equivalents	317	883
Accounts payable and accrued liabilities	167	53,238

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 earnings.

19. Capital Management

The Company defines its capital to include the following:

	2012	2011
Cash and cash equivalents	\$ 462,365	\$ 674,327
Shareholders' equity	\$ 1,096,828	\$ 2,704,661

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. The Company will balance its overall capital structure through new share issues or by undertaking other activities as deemed appropriate in the specific circumstances. At December 31, 2012 and 2011, the Company was not subjected to any externally imposed capital requirements.

20. Subsequent Events

Subsequent to December 31, 2012, the Company:

- Announced it was undertaking a non-brokered private placement consisting of 515,000 units for aggregate proceeds of \$51,500. Each unit consists of one common share and one-half of one common share purchase warrant. Each whole warrant entitles the holder thereof to purchase one additional common share of the Company at a price of \$0.20 per warrant share for a period of two years following the close of the private placement.
- Announced that Berkley Renewables Inc. would become 95% shareholders of Solar Flow-Through 2013-I General Partner Ltd. and Solar Flow-Through 2013-I Management Ltd.