BRS RESOURCES LTD.
(Formerly Bonanza Resources Corporation)

DALLAS, TEXAS, USA

CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2011 and 2010

1. Consolidated Statements of Operations and Deficit
2. Consolidated Balance Sheets
3. Consolidated Statements of Cash Flows
4. Notes to Consolidated Financial Statements

MANAGEMENT'S REPORT

The accompanying consolidated financial statements of BRS Resources Ltd. and the related financial information presented in this annual report are the responsibility of management and have been approved by the Board of Directors. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The consolidated financial statements and related financial information reflect amounts which must, of necessity, be based upon informed estimates and judgments of management with appropriate consideration to materiality. All financial information contained in the annual report is consistent, where appropriate, with that contained in the consolidated financial statements.

The Company has developed and maintained systems of internal controls, policies and procedures in order to provide reasonable assurance as to the reliability of the financial records and the safeguard of assets. Whitley Penn LLP, independent external auditors, has audited the consolidated financial statements in accordance with the Canadian generally accepted auditing standards on behalf of the shareholders. Whitley Penn LLP has full and free access to the Audit Committee. Their report is included in the consolidated financial statements.

The Board of Directors has established an Audit Committee. The Audit Committee reviews with management and the independent external auditors any significant financial reporting issues, the consolidated financial statements, and any other matters of relevance to the parties. The Audit Committee meets quarterly to review and approve the interim consolidated financial statements prior to their release, as well as annually to review the Company's annual consolidated financial statements and management's discussion and analysis, and to recommend their approval to the Board of Directors. The external auditors have unrestricted access to the Company, the Audit Committee and the Board of Directors.

"Steven Moore"
Steven Moore
Chief Executive Officer

"Michael Noonan"
Michael Noonan
Chief Financial Officer

February 28, 2012

AUDITORS' REPORT

To the Shareholders of BRS Resources Ltd.

We have audited the consolidated balance sheet of BRS Resources Ltd. as of October 31, 2011, and the consolidated statements of operations and deficit, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, these consolidated financial statements present fairly, in all material respects, the consolidated financial position of BRS Resources Ltd. as of October 31, 2011 and the consolidated results of their operations and their cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The consolidated financial statements of BRS Resources Ltd. as of October 31, 2010, were audited by other auditors whose report dated February 17, 2011, expressed an opinion without reserve on those statements.

Whitley Penn LLP

Fort Worth, Texas
February 28, 2012

BRS Resources Ltd.
(formerly Bonanza Resources Corporation)

CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

		Years Ended October 31,	
		2011	2010
REVENUE			
Oil and gas	$	**68,025**	98,624
Management fee		**79,712**	-
		147,737	98,624
EXPENSES			
Stock based compensation		**1,412,161**	20,350
Wages and benefits		**540,147**	-
Engineering and consulting fees		**442,782**	172,388
Legal and accounting		**175,700**	61,766
Office and general		**160,100**	54,146
Regulatory fees		**78,523**	35,967
Travel		**70,381**	42,163
Rent		**60,675**	-
Depletion, depreciation and amortization		**49,974**	60,086
Production costs		**39,358**	45,671
Investor relations		**37,953**	2,456
Bank charges and interest		**33,027**	50,657
Impairment expense		**125,000**	1,555,621
(Gain) loss on foreign exchange		**63,804**	(6,958)
		3,289,585	2,094,313
LOSS BEFORE OTHER ITEMS AND INCOME TAXES		**(3,141,848)**	(1,995,689)
Write off of accounts and loans payable		**-**	10,845
Forgiven related party debt		**-**	93,648
Forgiven interest on demand loans payable		**-**	49,936
Interest and other income		**15,726**	-
NET LOSS		**(3,126,122)**	(1,841,260)
DEFICIT, beginning of year		**(19,679,532)**	(17,838,272)
DEFICIT, end of year	$	**(22,805,654)**	(19,679,532)
LOSS PER SHARE (basic and diluted)	$	**(0.11)**	(0.36)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING (basic and diluted)		**29,555,190**	5,057,518

CONSOLIDATED BALANCE SHEETS

		October 31, 2011	October 31, 2010
ASSETS			
Current:			
Cash	$	**322,836**	5,585
Accounts and other receivables		**100,604**	4,450
Due from related parties		**189,774**	-
Prepaid expenses		**16,228**	3,921
Total Current Assets		**629,442**	13,956
Other restricted assets		**96,143**	-
Deposit on acquisition		**-**	157,280
Property and equipment *[Note 5]*		**5,557,031**	411,041
Total Assets	$	**6,282,616**	582,277
LIABILITIES			
Current:			
Accounts payable and accrued expenses	$	**374,111**	186,200
Notes payable *[Note 6]*		**1,890,193**	753,082
Due to related parties		**32,068**	335,218
Asset retirement obligation		**1,614**	-
Total Current Liabilities		**2,297,986**	1,274,500
Asset retirement obligation, long term portion		**737**	-
Total Liabilities		**2,298,723**	**1,274,500**
SHAREHOLDERS' EQUITY (DEFICIT)			
Share capital *[Note 8]*		**24,464,801**	18,049,724
Share subscriptions		**(25,000)**	-
Contributed surplus *[Note 9]*		**2,349,746**	937,585
Deficit		**(22,805,654)**	(19,679,532)
Total Shareholders' Equity (deficit)		**3,983,893**	(692,223)
Total Liabilities & Shareholders' Equity (deficit)	$	**6,282,616**	582,277

APPROVED ON BEHALF OF THE BOARD:

Steven Moore	*Michael Noonan*
President / CEO	CFO

BRS Resources Ltd.
(formerly Bonanza Resources Corporation)

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended October 31,	
	2011	2010
OPERATIONS		
Net loss	$ **(3,126,122)**	(1,841,260)
Add items not affecting cash:		
Depletion, depreciation and amortization	**49,974**	60,086
Stock based compensation	**1,412,161**	20,350
Impairment expense	**125,000**	1,555,621
Interest accrued on notes payable	-	50,657
Forgiven debt and interest	-	(143,584)
Other-net	**(207)**	(10,845)
	(1,539,194)	(308,975)
Change in non-cash working capital balances related to operations:		
(Increase) decrease in accounts and other receivables	**(96,154)**	14,904
Increase in due from related parties	**(189,774)**	-
(Increase) decrease in prepaid and other assets	**(12,307)**	16,295
Increase in accounts payable and accrued expenses	**187,911**	23,313
Increase (decrease) in due to related parties	**(303,150)**	320,596
	(1,952,668)	66,133
FINANCING		
Issuance of common shares, net of offering costs	**5,942,264**	-
Increase (decrease) in demand loans payable	**(500,382)**	85,846
	5,441,882	85,846
INVESTING		
Petroleum and natural gas properties:		
Proceeds on sale of petroleum and natural gas properties	-	28,419
Acquisition costs	**(3,014,190)**	(162,474)
Exploration costs	-	(21,458)
Acquisition of equipment	**(61,630)**	(1,626)
Increase in other restricted assets	**(96,143)**	-
	(3,171,963)	(157,139)
Increase (decrease) in cash	**317,251**	(5,160)
Cash, beginning of year	**5,585**	10,745
CASH, end of year	$ **322,836**	5,585

During the year, the Company paid $20,549 (2010- $279,140) in interest charges.
During 2011 the Company issued 1,010,800 units at $0.25 to settle debt of $252,700.
During 2011 the Company issued 750,000 shares for property acquisitions of $195,113
During 2011 acquisition costs of $1,890,193 was financed with debt
During 2011 asset retirement obligation increased $2,351
During 2010, the Company issued 13,205,602 units at $0.05 to settle debt to related parties, convertible debentures, and demand loans totaling $444,953

1. NATURE OF OPERATIONS

BRS Resources Ltd. (the "Company") incorporated in the Province of British Columbia is a public company listed on the TSX venture exchange. The accompanying consolidated financial statements include the accounts of the Company, its wholly owned subsidiary, Bonanza Resources (Texas), Inc., a Texas corporation and its pro-rata share of the accounts of AleAnna Energy, LLC, a Delaware Limited Liability Company, which includes its pro-rata share of the accounts of AleAnna Resources, LLC, a Delaware Limited Liability Company.

The Company is primarily engaged in production, exploration, and acquisition of petroleum and natural gas properties in the United States and through its investment in AleAnna Energy, LLC, Italy.

The recoverability of amounts recorded as petroleum and natural gas assets is dependent upon the discovery of economically recoverable reserves. These financial statements have been prepared assuming the Company will continue on a going-concern basis. The Company has incurred losses since inception and at October 31, 2011 has a net working capital deficit of 1,668,544 (working capital deficiency - October 31, 2010 - $1,260,544). The ability of the Company to continue as a going-concern depends upon its ability to develop profitable operations and to continue to raise additional financing to fund its operations.

There can be no assurance that the Company will be able to continue to raise funds, in which case the Company may be unable to meet its obligations. Should the Company be unable to realize its assets and discharge its liabilities in the normal course of business, the net realizable value of its assets may be materially less than the amounts recorded on the consolidated balance sheets.

Management plans to continue to pursue equity and debt financing to support operations. Management believes this plan will be sufficient to meet the Company's liabilities and commitments as they become payable over the next twelve months. There can be no assurance that management's plan will be successful. Failure to maintain the support of creditors and obtain additional external equity financing will cause the Company to curtail operations and the Company's ability to continue as a going concern will be impaired. The outcome of these matters cannot be predicted at this time.

2. CHANGES IN ACCOUNTING POLICIES AND RECENT ACCOUNTING PRONOUNCEMENTS

For years beginning after October 31, 2011, the Company will be required to adopt the following CICA Handbook sections:

The CICA issued "Consolidated Financial Statements", Section 1601, which together with Section 1602 below, replace the former consolidated financial statements standard. Section 1601 establishes the requirements for the preparation of consolidated financial statements. The adoption of this standard should not have a material impact on the Company's consolidated financial statements.

"Non-controlling Interests", Section 1602 establishes the accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. This standard requires a non-controlling interest in a subsidiary to be classified as a separate component of equity. In addition, net earnings and components of other comprehensive income are attributed to both the parent and non-controlling interest. The adoption of this standard should not have a material impact on the Company's consolidated financial statements.

In February 2008, Canada's Accounting Standards Board ("AcSB") confirmed January 1, 2011 as the effective date for the mandatory convergence of Canadian generally accepted accounting principles ("GAAP") to International Financial Reporting Standards ("IFRS") for Canadian public companies.

The Company is required to adopt the requirements set out by AcSB and other regulatory bodies. The Company is performing a review of the major differences between Canadian GAAP and is assessing the individual differences and policy choices to determine the impacts on the Company's consolidated financial statements and business processes. The process is being managed internally with the assistance of outside consultants that have been engaged to provide guidance and assistance.

2. CHANGES IN ACCOUNTING POLICIES AND RECENT ACCOUNTING PRONOUNCEMENTS *continued*

The first consolidated financial statements that the Company will have to prepare under IFRS will be the unaudited statements for the quarter ending January 31, 2012 that will include unaudited comparative financial information for the quarter ending January 31, 2011. The first audited consolidated financial statements that the Company will have to prepare will be those for the year ending October 31, 2012 with comparative financial information for the year ending October 31, 2011. As a result, all of the opening balance sheet figures at November 1, 2010 must be computed prior to the issuance of the unaudited financial statements for the quarter ending January 31, 2012 so that comparative figures may be shown.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principals of consolidation and basis of accounting – The Company's consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). The consolidated financial statements include the accounts of the Company its wholly-owned U.S subsidiary, and its pro-rata share of AleAnna Energy, LLC ("AleAnna Energy"). All material intercompany balances and transactions have been eliminated in consolidation.

Cash and cash equivalents – The Company considers all highly liquid instruments with original maturities of three months or less on the date of purchase to be cash equivalents. Cash equivalents are carried at cost, plus accrued interest, which approximates market.

Petroleum and Natural Gas Interests - The Company follows the full cost method of accounting for petroleum and natural gas operations in accordance with guidelines issued by the Canadian Institute of Chartered Accountants ("CICA"). Under this method, all costs associated with the acquisition, exploration and development of petroleum and natural gas properties are capitalized in cost centers on a country-by-country basis. Such costs include property acquisition costs, the completion of geological and geophysical studies, carrying charges on non-producing properties, costs of drilling both productive and non-productive wells, and overhead expenses directly related to these activities.

Depletion is calculated for producing properties by using the unit-of-production method based on estimated reserves, before royalties, as determined by management or independent consultants. Natural gas production and reserves are converted to equivalent units of oil based on relative energy content. No gain or loss is recognized on the sale or disposition of oil and gas properties except for dispositions that would significantly alter depletion rates. Future well abandonment and site restoration costs are included in the calculation of depletion.

A ceiling test is applied to the net capitalized costs on an annual basis to ensure that such costs, including the costs applicable to unproved properties net of impairment, future general and administrative expenses, financing costs and income taxes, do not exceed the estimated value of future net revenues from the production of proved reserves. Any reduction in value as a result of the ceiling test is charged as additional depletion. The calculation of future net revenues is based upon prices, costs and regulations in effect at each year-end.

Unproved properties are assessed for impairment on an annual basis by applying factors that rely on historical experience. In general, the Company may write off an unproved property under one or more of the following conditions:

i) there are no firm plans for further drilling on the unproved property;
ii) negative results were obtained from studies of the unproved property;
iii) negative results were obtained from studies conducted in the vicinity of the unproved property; or
iv) The remaining term of unproved properties does not allow sufficient time for further studies or drilling or the Companies title interest has lapsed.

Pro rata consolidation - Investments in unincorporated entities that are involved solely in activities relating to the extraction of mineral resources are accounted for using the pro-rata consolidation method. Accordingly, the Company includes its share of the investee's assets, liabilities, equity, revenue and expense in its consolidated financial statements. The Company's investment in AleAnna Energy has been accounted for using the pro-rata consolidation method.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

Equipment - Equipment is recorded at cost less accumulated depreciation. Depreciation is recognized on the straight-line basis at the following rates per annum:

Office equipment	3 – 5 years
Well equipment	7 years

Impairment of Long-Lived Assets - Long-lived assets are assessed for impairment when events and circumstances warrant, when the carrying amounts of the assets exceeds its estimated undiscounted net cash flow from use or its fair value, at which time the impairment is charged to earnings.

Asset Retirement Obligations - The fair value of a liability for an asset retirement obligation is recognized on an undiscounted cash flow basis when a reasonable estimate of the fair value of the obligation can be made. The asset retirement obligation is recorded as a liability with a corresponding increase to the carrying amount of the related long-lived asset. Subsequently, the asset retirement cost is allocated to expense using a systematic and rational method and is adjusted to reflect period-to-period changes in the liability resulting from the passage of time and from revisions to either expected payment dates or the amounts comprising the original estimate of the obligation. As at October 31, 2011, the Company has approximately $2,000 outstanding asset retirement obligations.

Revenue recognition - Revenue from the sale of petroleum and natural gas is recognized when title, risks and rewards of ownership pass to the buyer, normally at the pipeline delivery point for natural gas and at the time product is transferred to purchaser from lease storage facility for petroleum. Revenue recognition is subject to the existence of a contract or similar arrangement being in place and collection being reasonably assured.

Foreign Currency Translation - The Company translates monetary assets and liabilities of its foreign operations at the rate of exchange in effect at the balance sheet date and the non-monetary assets and liabilities at their historical exchange rates. Revenues and expenses are translated at the average rate prevailing during the accounting period, except for amortization and depletion which are translated at the same historical rate as the related assets.

The Company uses the integrated, temporal method of accounting for foreign exchange. Foreign exchange gains and losses from the translation of foreign operations are included earnings.

Stock-based Compensation – The Company has a stock option plan for officers, employees, and directors. Options granted to officers, employees and directors are accounted for in accordance with the fair value method of accounting for stock based compensation. The Company uses the Black-Scholes option pricing model to estimate the fair value of each stock option at the date of grant. Compensation expense is recognized over the vesting period. Any consideration received on the exercise of stock options is credited to share capital.

Loss per share – The Company uses the treasury stock method in computing loss per share. Under this method basic loss per share is computed by dividing losses available to common shareholders by the weighted average number of common shares outstanding during the year. For the years ended October 31, 2011 and 2010, the outstanding "in the money" warrants and options have not been considered in the calculations of fully diluted loss per share as they are anti-dilutive.

Financial Instruments and Financial Risk - The Company's financial instruments, at October 31, 2011, consist of cash accounts and loans and receivables, accounts payable and accrued liabilities, loans payable, and due to related parties. Cash has been classified as held-for-trading, the carrying values of which approximate their fair values due to their short term nature.

Accounts receivable has been classified as loans and receivables, measured at cost due to the short term nature. Their carrying amounts approximate fair value.

Accounts payable and accrued liabilities, notes payable, and due to related parties are classified as other financial liabilities, measured at amortized cost using the effective interest rate method, however due to their short term nature, their carrying amounts approximate fair value

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

Foreign currency exchange risk - Certain operations and financial instruments are denominated in U.S. dollars or Euros and are converted into Canadian dollars for reporting purposes. Fluctuations in the exchange rates between the U.S. dollar or Euros and Canadian dollar could have a material effect on the Company's business and on the reported amounts of the Company's consolidated financial instruments. The Company is exposed to foreign exchange rate risk relating to cash and cash equivalents, accounts receivable, and accounts payable and accrued expenses denominated in U.S. dollars and Euros. The Company has no exchange rate contracts or hedges in place.

Credit risk - The Company's accounts receivable are with companies in the petroleum and natural gas industry in the U.S. and are subject to normal industry credit risks. The Company generally extends unsecured credit to these companies and therefore the collection of the accounts receivable may be affected by changes in economic or other conditions. Management believes the risk is mitigated by the size and reputation of the companies to which they extend credited to. The Company does not currently hold asset backed commercial paper investments.

Interest rate risk - The Company is exposed to interest rate cash flow risk to the extent that the revolving note payable bears interest at a floating interest rate.

Commodity price risk - The nature of the Company's operations results in exposure to fluctuation in petroleum and natural gas prices. Management continuously monitors petroleum and gas prices but does not have any instruments in place to hedge the exposure.

Future Income Taxes-The Company accounts for potential future net tax assets which are attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and which are measured using tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be settled. When the future realization of income tax assets does not meet the test of being more likely than not to occur, a valuation allowance in the amount of the potential future benefit is taken and no net asset is recognized. Such an allowance has been applied to all potential income tax assets of the Company.

Convertible Debentures-The Company segregates convertible debentures into liability and equity components at the time of their issue. The liability component represents the present value of interest and principal payments after factoring out the conversion premium option. The financial liability is accreted to earnings over the term of the debt. These components are measured at their fair values at the date the debenture was originally issued or acquired.

Share Capital - Common shares issued for non-monetary consideration are recorded at their fair market value based upon the trading price of the Company's shares on the TSX Venture Exchange on the date of the agreement to issue shares. Shares issued as property option payments are valued at their fair market value on the date of issuance.

Financial instruments - All financial instruments are classified into one of the following five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. Initial and subsequent measurement and recognition of changes in the value of financial instruments depends on their initial classification:

- Held to maturity investments, loans and receivables, and other financial liabilities are initially measured at fair value and subsequently measured at amortized cost. Amortization of premiums or discounts and transaction costs are amortized into net earnings (loss), using the effective interest method.
- Available for sale financial assets are measured at fair value, with unrealized gains and losses recorded in other comprehensive income until the asset is realized or an impairment is viewed as other than temporary, at which time they will be recorded in net earnings.
- Held for trading financial instruments are measured at fair value. All gains and losses resulting from changes in their fair value are included in the statement of operations in the period in which they arise.
- All derivative financial instruments are classified as held for trading financial instruments and are measured at fair value, even when they are part of a hedging relationship. All gains and losses resulting from changes in their fair value are included in the consolidated statement of operations and deficit in the period in which they arise.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

The Company has classified its financial instruments as follows:

- Cash and cash equivalents are classified as held-for-trading.
- Accounts receivable is classified as loans and receivables.
- Accounts payable, accrued liabilities and due to related parties are classified as other financial liabilities.
- Notes payable are classified as other financial liabilities.

Use of Estimates - The preparation of consolidated financial statements in conformity with Canadian GAAP requires management to make informed judgments and estimates that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the dates of the consolidated financial statements, as well as the reported amounts of revenues earned and expenses incurred during the fiscal years. Specific areas requiring the use of management estimates relate to the continuing viability of petroleum and natural gas interests and determination of reclamation obligations. Changes in assumptions could significantly affect these estimates and actual results may differ from them.

Amounts recorded for depletion and amounts used for ceiling test calculations are based on estimates of natural gas and petroleum reserves and future costs required to develop those reserves. By their nature, these estimates of reserves and the related future cash flows are subject to measurement uncertainty, and the impact on consolidated financial statements of future periods could be material.

Environmental Expenditures-The operations of the Company may be affected by changes in environmental regulations, including those for site restoration costs. The likelihood of new regulations and their effect upon the Company varies and is not predictable.

Environmental expenditures that relate to ongoing environmental and reclamation programs are charged against operations as incurred or capitalized and amortized depending on their expected future economic benefit. Estimated future removal and site restoration costs are recognized when the ultimate liability is reasonably determinable, and are charged against operations over the estimated remaining life of the related business operations, net of expected recoveries.

Business Combinations-The Business Combinations Section 1582 of the CICA Handbook was early adopted in 2011. The Company measures assets and liabilities acquired in a business combination, contingent consideration and certain acquired contingencies at their fair values as of the date of acquisition. In addition, acquisition-related and restructuring costs are to be recognized separately from the business combination and included in the statement of operations and deficit.

Comparative figures – Certain comparative figures have been reclassified to conform to the current year's presentation. Such reclassification is for presentation purposes only and has no effect on previously reported results.

4. PROJECTS

Po Valley and Bradano Basins Italy - On November 3, 2010, the Company entered into Membership Interest Purchase Agreements ("MIPs") with four individuals and a limited liability company that collectively owned 100% of the membership interests in AleAnna Energy. Pursuant to these MIPs, the Company would purchase 100% of the membership interest in AleAnna Energy for U.S. $5,500,000. The purchase price was primary allocated to AleAnna Energy's licenses to explore for oil and gas in the country of Italy, which are held by AleAnna Energy's subsidiary, AleAnna Resources, LLC ("AleAnna Resources"). On the same day the Company assigned 51% of its interest in AleAnna Energy to a third party in exchange for a reduction in its loan balance with this third party in the amount of U.S. $3,366,000. The gain was deferred as a reduction in the basis of the Company's basis in AleAnna Resources' licenses. The effective date of the acquisition was November 3, 2010.

On September 28, 2011, the Company through AleAnna Energy, a company jointly owned by the Company's wholly-owned subsidiary and a third party, acquired an additional 20% membership interest (the "Saxon Interest") in AleAnna Resources. The Saxon Interest was acquired from Saxon Oil Company ("Saxon") for a combination of cash and common shares of the Company.

4. PROJECTS ***continued***

AleAnna Energy paid Saxon a non-refundable deposit to secure its obligations, which was credited against the purchase price of the Saxon Interest in connection with the closing of the acquisition. AleAnna Energy obtained the remaining consideration required for the acquisition by way of capital contributions from the Company and the other third party owner. The Company contributed $2,036,489 cash and 750,000 shares of the Company's stock valued at $195,113 to AleAnna Energy as part of its pro rata share of the purchase price. The other third party owner agreed to provide the Company a loan equal to the amount of the cash contribution the Company was required to make to AleAnna Energy in connection with the acquisition of the Saxon Interest.

Prior to the acquisition of the Saxon Interest, AleAnna Energy held a 15% of the membership interest in AleAnna Resources, with an additional 20% back-in interest after payout. As a result of the acquisition of the Saxon Interest, AleAnna Energy owns 35% of AleAnna Resources, with an additional 20% back-in interest. Through its 49% membership interest in AleAnna Energy, the Company owns approximately 25% of AleAnna Resources after payout.

In Italy, AleAnna Resources has eight "Exploration Permits" and three "Applications for Exploration Permits", totaling 802,879 acres, approved by the Italian Ministry of Economic Development (General Directorate for Energy and Mining Resources, National Mining Office for Hydrocarbons and Geothermics). Nine of the exploration permit applications, totaling 670,396 acres, are located in the Po Valley in northern Italy, and three exploration permit applications, totaling 132,483 acres, are located in the Bradano Foredeep basin in southern Italy.

In March 2009, AleAnna Resources completed a 126 sq. km 3-D seismic survey in the Corte Dei Signori permit area. From the processing and interpretation of the 3D data AleAnna Resources has generated a number of prospects and a drill location within the Gallare Field was selected as the first drill location. AleAnna Resources has also received a letter from the Italian Ministry of Economic Development confirming it has all of the necessary government approvals and that upon receipt of the required drilling bonds and guarantees, AleAnna Resources may proceed with the drilling the Gallare 6d well. AleAnna Resources is negotiating the final agreements with the landowner so civil work on the well site can commence. Spud date for drilling the well will be largely dependent on drilling rig availability, but is expected to occur in the 2nd quarter of 2012. The Gallare 6d well has been classified as proved undeveloped reserves by the company's third party reserve consultants.

In August 2011 AleAnna Resources completed a 33,600 acre (136 sq. km) 3-D seismic acquisition survey on the Ponte Del Diavolo exploration permit area in Italy. The 64,000 acre (258 sq. km) Ponte Del Diavolo permit area is located in southeastern Po Valley, and is on trend with a number of large natural gas fields. Ponte Del Diavolo is the second large 3-D seismic survey AleAnna Resources has completed onshore Italy. Reservoir Geophysical Corp. in Houston, TX has been awarded the processing work for the Ponte Del Diavolo 3-D seismic survey and processing of the data has begun. In addition, AleAnna Resources has filed a work commencement application with the ministry for its third 3-D seismic survey, this one on the Ponte Dei Grille exploration permit area, also in southeastern Po Valley. AleAnna Resources' other seven permitted areas are currently in the 3-D seismic acquisition analysis and permitting phase.

Lasley Project, Caddo County, Oklahoma, USA - The Company owns various working, royalty and overriding royalty interests in a total of seventeen producing wells located in the Eakly East field. Two wells are classified as oil wells while fifteen are classified as gas wells although several have associated oil or condensate production. The operator, Western Oil & Gas Development Corp. ("Western") of Oklahoma City has actively developed this project area in the past decade, primarily for Pennsylvanian-age Red Fork sandstone gas reservoirs. The project achieved payout in 2008 and Western subsequently backed in for an additional 20% interest reducing all other participants', including the Company's, interests proportionately. Additional drilling locations exist in the Lasley project area and are classified as proved undeveloped locations by the Company's third-party consultants. New well drilling is not expected in 2012, due to depressed natural gas prices in North America for the past three years.

Texas, USA - The Company owns an interest in the XX Ranch property which was written off in 2009. The property still produces gas with income approximately equivalent to the expenses to produce the gas.

South Eastern Saskatchewan Project, Saskatchewan, Canada - The Company wrote off all associated costs with the project during 2010.

North Fork 3D Project, Bea Beaver County, Oklahoma, USA - The Company acquired 3D seismic and significant leasehold in the project area targeting the Morrow sandstone and Mississippian carbonates. The Company farmed out its interest prior to drilling. One well was drilled during 2010 and abandoned as a dry hole. The Company wrote down associated costs in 2010. No further activity is anticipated and most leasehold acquired has now expired. The remaining 3D prospect costs of $125,000 were written off in the first quarter of 2011.

5. PROPERTY AND EQUIPMENT

	Cost	Accumulated depreciation and depletion	Net Book Value October 31, 2011	Net Book Value October 31, 2010
Proven developed producing petroleum and natural gas properties-United States	$ 800,029	$ 585,076	$ 214,953	237,278
Proven Undeveloped petroleum and natural gas properties-Italy	2,597,512	-	2,597,512	-
Unproven petroleum and natural gas properties-United States	-	-	-	125,000
Unproven petroleum and natural gas properties-Italy	2,659,264	-	2,659,264	-
Well Equipment	161,952	134,718	27,234	45,620
Office equipment	70,123	12,055	58,068	3,143
Totals	$ 6,288,880	$ 731,849	$ 5,557,031	411,041

6. NOTES PAYABLE

	Outstanding October 31, 2010	Additions	Paid Cash	Paid Stock or Investments	Outstanding October 31, 2011
Demand notes payable	$ 753,082	$ -	$ 500,382	$ 252,700	$ -
Acquisition notes payable	-	7,289,413	2,002,253	3,396,967	1,890,193
	$ 753,082	$ 7,289,413	$ 2,502,635	$ 3,649,667	$ 1,890,193

The acquisition notes payable results from short term financing of the Company's share of the acquisitions of a 15 % interest in AleAnna Resources by Ale Anna Energy in November 2010 and an additional acquisition of a 20% by AleAnna Energy in October 2011. The original note bore interest at 10% per annum and was paid by assigning a 51% interest in Ale Anna Energy for $3,396,967 and a cash payment of $2,002,053. The note for the subsequent acquisition bears interest at 10% per annum and is due November 4, 2011. The note and accrued interest were paid in full on November 4, 2011.

Substantially all accrued interest on the demand notes payable and a portion was forgiven and recorded as forgiveness of debt income in 2010 or was paid by issuing stock for debt in 2010. In 2011 the remaining notes were paid by issuance of stock valued at $252,700 and a cash payment of $502,520, including interest of $2,138.

7. INCOME TAXES

The statutory rates of income taxes are reconciled to the effective rate as follows:

		2011	2010
Combined Statutory tax rate		28.88%	29.38%
Income recovery at statutory rate	$	(902,824)	(664,893)
Increase resulting from stock based compensation		407,832	5,979
Share issuance cost		(26,124)	(15,142)
Other		114,634	
Valuation of tax loss carry forward		406,482	674,056
Future income Tax	$	-	-

The future income taxes payable consist of the following temporary differences:			
Non-Capital losses	$	1,554,074	1,429,466
Property and equipment, net of asset retirement obligation		1,027	534,421
Other		19,073	16,769
Valuation Allowance		(1,574,174)	(1,980,656)
	$	-	-

The Company has non-capital loss carry-forwards and allowances of approximately $3,474,953 for Canadian tax purposes and $1,971,473 for U. S. tax purposes. These losses expire form 2011 to 2030 and are available to offset future taxable income.

8. SHARE CAPITAL

	October 31, 2011			October 31, 2010	
	Number		Amount	Number	Amount
Balance, beginning of period	5,188,622	$	18,049,724	38,763,936	17,612,271
Shares issued for cash	25,000,000		6,250,000	-	-
Shares issued for debt (i)	1,010,800		252,700	13,205,602	444,953
Shares issued for properties	750,000		195,113	-	-
Shares issued for finders fees	678,200		169,550	-	-
Escrow cancellation	-		-	(83,333)	(7,500)
Consolidation 10:1	-		-	(46,697,583)	-
Share issuance costs	-		(452,286)	-	-
Balance, end of period	32,627,622	$	24,464,801	5,188,622	18,049,724

Warrants - The Company has issued stock warrants as follows:

Exercise Price	Outstanding October 31 2010	Additions	Exercised or Expired	Cancelled	Outstanding October 31 2011	Expiration Date
$1.00 - $2.00	1,819,760	-	841,000	-	978,760	December 9, 2011
$0.30	-	1,653,200	-	-	1,653,200	December 1, 2012
$0.40	-	12,839,100	-	-	12,839,100	December 1, 2012
$0.40		505,400	-	-	505,400	December 1, 2013
Total	1,819,760	14,997,700	841,000	-	15,976,460	

In December 2010, the Company completed a private placement of 25,000,000 units at $0.25 per unit for gross proceeds of $6,250,000. Each unit was comprised of one common share of the Company and one-half of one share purchase warrant, with each whole warrant exercisable into one common share at $0.40 per share until December 1, 2012.

In connection with the private placement, the Company paid finder's fees to an aggregate of fourteen finders, comprised of: (i) an aggregate cash payment of $282,736; (ii) the issuance of an aggregate 678,200 units in lieu of a cash payment; and (iii) the issuance of an aggregate 1,653,200 broker warrants (each, a "Broker Warrant"). Each Broker Warrant is exercisable at a price of $0.30 per share until December 1, 2012, subject to a right of call by the Company under certain conditions.

9. CONTRIBUTED SURPLUS

		October 31, 2011	October 31, 2010
Balance, beginning of period	$	937,585	694,408
Add-stock based compensation		1,412,161	20,350
Debt settlement warrants issued		-	215,327
Escrow share cancellation		-	7,500
Balance, end of period	$	2,349,746	937,585

10. STOCK BASED COMPENSATION

The Company has established a stock option plan for directors, senior officers, employees, and consultants. Under the Company's stock option plan, the exercise price of each option is determined by the Board, subject to the Discounted Market Price policies of the TSX Venture Exchange.

The maximum number of shares which may be issued pursuant to options granted under the plan shall be 6,375,524 shares or such additional amount as may be approved from time to time by the shareholders of the Company. The maximum number of options granted to any one optionee in a 12 month period is limited to 5% of the issued shares of the Company.

At October 31, 2011 there are options outstanding to issue 4,275,000 shares of the Company. The price of the options range from $0.25 to $1.50 and their expiry dates range from March 12, 2013 to June 9, 2016. The weighted average contract life remaining is 4.19 years.

The following is a summary of the change in the Company's stock option plan for the period ended October 31, 2011 and 2010.

	October 31, 2011		October 31, 2010	
	Number	**Price**	**Number**	**Amount**
Balance, beginning of period	355,000	$1.88	295,000	$2.40
Options granted during period	4,110,000	$0.34	235,000	$0.50
Options expired/cancelled during period	(190,000)	$2.90	(175,000)	$0.93
Balance, end of period	4,275,000	$0.35	355,000	$1.88

The intrinsic value of options exercisable at October 31, 2011 is zero.

The following table summarizes the information about stock options outstanding and exercisable at October 31, 2011:

Weighted Average Exercise Price per Share	Number Outstanding October 31, 2011	Weighted Average Remaining Contract Life
$0.25	70,000	4.61
$0.27	680,000	4.13
$0.35	3,360,000	4.25
$0.50	135,000	3.33
$1.50	30,000	1.38
	4,275,000	4.19

10. STOCK BASED COMPENSATION *continued*

The Company recognizes an expense for the fair value of options granted. The Company uses the Black Scholes option pricing model to value stock options granted. The Black Scholes model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. The model requires management to make estimates, which are subjective and may not be representative of actual results. Changes in assumptions can materially affect estimates of fair values. For purposes of the calculation and disclosures, the following weighted-average assumptions were used:

	2011	2010
Risk free interest rate	2.055% to 2.718%	2.60%
Expected dividend yield	0%	0%
Expected stock price volitility	99% to 100%	147.40%
Expected life of options	5 years	5 years

The weighted average fair value of options granted during the year was $0.34. The amount of options exercisable at October 31, 2011 is 4,150,000 with a weighted average exercise price of $ 0.35.

11. LOSS PER SHARE

Loss per share is calculated using the weighted-average number of common shares outstanding during the year. Diluted loss per share has not been computed as it is anti-dilutive.

12. ASSET RETIREMENT OBLIGATION

The Company has recognized the fair value of its asset retirement obligations related to the plugging, abandonment, and remediation of oil and gas producing properties. The present value of the estimated asset retirement costs has been capitalized as part of the carrying amount of the related long-lived assets. The liability has been accreted to its present value as of the end of each year. The Company evaluated 17 wells, and has determined a range of abandonment dates through 2043.

The following represents a reconciliation of the asset retirement obligations for the years ended October 31, 2011 and 2010:

		2011		2010
Asset retirement obligation at beginning of year	$	-		-
Asset retirement obligation chages in current year		2,261		-
Accretion of discount		90		-
Asset retirement obligation at end of year	$	2,351	$	-

13. FINANCIAL INSTRUMENT RISKS

The Company's financial instruments are exposed to the following risks:

Credit Risk - The Company's primary exposure to credit risk is the risk of illiquidity of cash, amounting to $ 322,836 at October 31, 2011. As the Company's policy is to limit cash holdings to instruments issued by major Canadian or U.S. banks, or investments of equivalent or better quality, the credit risk is considered by management to be negligible.

Amounts receivable at October 31, 2011, included $ 6,504 due from the Canadian Government for GST and other miscellaneous receivables.

Liquidity Risk - Liquidity risk is the risk that the Company will not be able to pay financial instrument liabilities as they come due. The Company's liquidity risk from financial instruments is its need to meet operating requirements for accounts payable, notes payable and related party amounts payable.

Foreign Exchange Risk - The Company has foreign exchange risk due to activities carried out in the United States and Italy. At October 31, 2011 the Company had $ 611,518 in current assets and $ 2,256,609 in current liabilities originating in the U.S.

Interest Rate Risk - The Company is exposed to interest rate risk on its cash equivalents. These assets are in discounted instruments with pre-determined fixed yields. Interest rate movements will affect the fair value of these instruments so the Company manages maturity dates of these instruments to match cash flow needs, enabling realization at no loss in almost all cases.

Fair Value of Financial Instruments - The fair value classification of the Company's financial instruments as at October 31, 2011 and October 31, 2010 is held for trading.

14. CAPITAL MANAGEMENT

The Company's objectives for the management of capital are to safeguard its ability to continue as a going concern including the preservation of capital, and to achieve reasonable returns on invested cash after satisfying the objective of preserving capital.

The Company considers its cash to be its manageable capital. The Company's policy is to attempt to maintain sufficient cash balances to cover operating and exploration costs over a reasonable future period. The Company accesses capital markets through equity issues and loans as necessary and may also acquire additional funds where advantageous circumstances arise.

Excess cash investments are restricted to money market funds of major banks or instruments of equivalent or better quality.

The Company currently has no externally-imposed capital requirements except to maintain sufficient cash and investment balances to meet its ongoing expenditures.

15. SEGMENT INFORMATION

The Company is engaged in oil and gas exploration and production in the United States and Italy. The Company measures segment profit (loss) as income (loss) from operations. Business segment assets are those assets controlled by each reportable segment.

The following table sets forth certain information about the financial information of each segment for the periods ended October 31, 2011 and 2010.

		2011	2010
Business segment revenue:			
Oil and gas-United States	$	147,737	98,624
Oil and gas-Italy		-	-
Total revenue	$	147,737	98,624
Business segment loss			
Oil and gas-United States	$	(1,275,644)	(1,422,114)
Oil and gas-Italy		(176,269)	-
General administration		(1,674,209)	(419,146)
Net loss	$	(3,126,122)	(1,841,260)
Depletion and depreciation			
Oil and gas-United States	$	49,574	59,686
Oil and gas-Italy		-	-
General administration		400	400
Total depletion, depreciation and amortization	$	49,974	60,086
Capital expenditures			
Oil and gas-United States	$	61,630	28,278
Oil and gas-Italy		3,209,303	157,280
Total capital expenditures	$	3,270,933	185,558
Business segment assets			
Oil and gas-United States	$	644,322	551,697
Oil and gas-Italy		5,600,522	-
General administration		37,772	30,580
Total assets	$	6,282,616	582,277

16. RELATED PARTY TRANSACTIONS

All transactions with related parties have occurred in the normal course of operations and are measured at their fair value as determined by management. The year end balances referred to below are non-interest bearing, unsecured, payable on demand and have arisen from advances or the provision of services as described.

The Company did not incur any consulting fees during the period ended October 31, 2011 to the Chairman compared to $ 26,655 for the same period in 2010.The Company paid $4,528 in travel expenses to the Chairman in the period ended October 31, 2011 compared to $34,321 for the same period in 2010. At October 31, 2011 the Company owed the Chairman $4,528 for unreimbursed expenses. The Company also paid the Chairman or companies controlled by him $141,275 for liabilities owed to the Chairman at the beginning to the current fiscal year.

During the period ended October 31, 2011 the President of the Company's U.S. subsidiary, and director of the Company, incurred $36,188 in travel and office expenses compared to nil for the same period in 2010. At October 31, 2011 the Company owed the President to the Company's US subsidiary $11,927 for unreimbursed expenses.

During the period ended October 31, 2011 the President and a director of the Company incurred $11,242 in travel expenses compared to nil for the same period in 2010. At October 31, 2011 the President of the Company owed the Company $8,730 in travel advances.

During the year ended October 31, 2011 the Company paid $63,744 in repayment of loans made to the Company by the President and a director of the Company.

During the year ended October 31, 2011 the Company paid a party related to the current president and CEO, $9,935 for rent on a temporary office space in Dallas, Texas occupied from September 1, 2010 through January 31, 2011.

During the period ended October 31, 2011, a director of the Company incurred $53,260 compared to nil for the same period in 2010 in consulting fees and $12,713 in travel expenses compared to nil for the same period in 2010. At October 31, 2011 the Company owed the director $4,443 for consulting fees and related expenses.

During the period ended October 31, 2011, a director of the Company incurred $39,740 compared to nil for the same period in 2010 in consulting fees and $2,356 in travel and office expenses compared to nil for the same period in 2010. At October 31, 2011 the Company owed the director $11,160 for consulting fees and related expenses.

During the year the Company charged a management fee of $96,213 to Ale Anna Resources, of which $16,720 was eliminated in consolidation. The Company has receivables from Ale Anna Energy of $181,044 for unpaid management fees and expenses.

17. SUBSEQUENT EVENTS

In November 2011, the Company completed a private placement pursuant to which it issued convertible notes with a maturity date of November 4, 2014 in the aggregate principal amount of $6,000,000 and issued 10,000,000 share purchase warrants. Each warrant is exercisable into one common share of the Company at an exercise price of $0.45 per share until November 4, 2013, subject a right of call of the Company in the event that the Company's common shares trade above $0.90 per share on the Exchange (or such other exchange on which the shares may then be listed) for a period of at least consecutive 20 trading days. Subsequent to receipt of the approval of the Company's shareholders and the TSX Venture Exchange in November 2011, a new control person was created as a result of conversion of the convertible notes issued in the private placement into common shares, which conversion was effected on November 25, 2011. The principal amount of the notes was converted into an aggregate of 20,000,000 common shares of the Company on November 28, 2011 at a deemed conversion price of $0.30 per conversion share.

In connection with the private placement, the Company paid a finder's fee consisting of a cash payment of U.S. $390,000 and the issuance of 1,500,000 warrants (each exercisable into one share for $0.30 until November 4, 2013, subject to the requirement to exercise, upon giving company notice, should the Company's shares trade above $0.60 per share over a consecutive 20 day period) and 750,000 warrants (each exercisable into one share for $0.45 until November 4, 2013, subject to the requirement to exercise, upon giving company notice, should the Company's shares trade above $0.90 per share over a consecutive 20 day period).

In November and December 2011, Christopher Haga and James Wicklund, respectively, were appointed to the board of directors of the Company.

17. SUBSEQUENT EVENTS *continued*

Effective January 1, 2012 the Company entered into employment agreements with two key employees that provides, among other things, that if within 120 days of the occurrence of a Change of Control Event, the Company terminates the employment for reason other than Just Cause, the Company shall pay severance in amount equal to the salary for the remainder of the term of the agreement. The term of the agreement is for a period of three years ending December 31, 2014.