

BRS RESOURCES LTD.

DALLAS, TEXAS, USA

CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2012 and 2011

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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 International Financial Reporting Standards. 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, 2013

AUDITORS' REPORT

To the Shareholders of BRS Resources Ltd.,

We have audited the accompanying consolidated financial statements of BRS Resources Ltd., which comprise the consolidated statements of financial position at October 31, 2012 and 2011 and November 1, 2010 and the consolidated statements of comprehensive loss, changes in shareholders' equity, and cash flows for the years ended October 31, 2012 and 2011, and the notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Emphasis of Matter

Without qualifying our opinion, the accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company's ability to recover its investment in its oil and gas properties and attain profitable operations is dependent upon the discovery, development and sale of oil and gas reserves. These conditions raise substantial doubt about the Company's ability to continue as a going concern. These consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of this uncertainty.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of BRS Resources Ltd. at October 31, 2012 and 2011 and November 1, 2010 and its financial performance and its cash flows for the years ended December 31, 2012 and December 31, 2011 in accordance with International Financial Reporting Standards.

Whitley Penn LLP

February 28, 2013

BRS Resources Ltd.**CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**

	Year Ended October 31,	
	2012	2011
REVENUE		
Oil and gas	\$ 34,854	68,025
Management fee	196,044	79,712
	230,898	147,737
EXPENSES		
Wages and benefits	608,196	540,147
Stock based compensation	432,574	1,412,161
Engineering and consulting fees	368,858	442,782
Legal and accounting	350,879	175,700
Office and general	239,450	160,100
Rent	73,757	60,675
Investor relations	80,554	37,953
Depletion, depreciation and amortization	66,946	34,856
Regulatory fees	46,088	78,523
Travel	31,218	70,381
Production costs	26,901	39,358
Bank charges and interest	20,664	33,027
Non-productive drilling costs	1,105,973	-
Impairment expense	-	125,000
Loss on sale of assets and other losses	196,081	-
(Gain) loss on foreign exchange	-	63,804
	3,648,139	3,274,467
LOSS BEFORE OTHER ITEMS AND INCOME TAXES	(3,417,241)	(3,126,730)
Debt discount amortization	(1,343,772)	-
Change in fair value of derivative liability	1,199,513	-
Interest expense	(393,471)	-
Interest and other income	26,298	15,726
NET LOSS	\$ (3,928,673)	(3,111,004)
Foreign currency translation gain	248,972	-
Comprehensive Loss	(3,679,701)	(3,111,004)
LOSS PER SHARE (basic and diluted)	\$ (0.08)	\$ (0.11)
COMMON SHARES OUTSTANDING (basic and diluted)	51,237,241	29,555,190

See Accompanying Notes to Consolidated Financial Statements.

BRS Resources Ltd.**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

	October 31, 2012	October 31, 2011	November 1, 2010
SETS			
rent:			
Cash	\$ 544,177	322,836	5,585
Accounts and other receivables	163,626	100,604	4,450
Notes receivable-current	11,995	-	-
Due from related parties	107,966	189,774	-
Prepaid expenses	35,645	16,228	3,921
Total Current Assets	863,409	629,442	13,956
er restricted assets	198,491	96,143	-
osit on acquisition	-	-	157,280
es receivable-non current	2,999	-	-
field equipment inventory	68,975	-	-
loration and evaluation assets [Note 5]	5,968,517	1,436,887	125,000
roperty and equipment [Note 6]	55,363	4,135,262	286,041
Total Assets	\$ 7,157,754	6,297,734	582,277
LIABILITIES			
rent:			
Accounts payable and accrued expenses	\$ 168,319	374,111	186,200
Notes payable [Note 7]	-	1,890,193	753,082
Due to related parties	19,405	32,068	335,218
Decommissioning obligation [Note 14]	-	1,614	-
Total Current Liabilities	187,724	2,297,986	1,274,500
Derivative warrant liability	144,259	-	-
Decommissioning obligation, long term portion [Note 14]	-	737	-
Lease inducement payable	18,241	-	-
Total Liabilities	350,224	2,298,723	1,274,500
SHAREHOLDERS' EQUITY (DEFICIT)			
Share capital [Note 9]	30,495,447	24,464,801	18,049,724
Share subscriptions	-	(25,000)	-
Contributed surplus [Note 10]	2,782,320	2,349,746	937,585
Deficit	(26,719,209)	(22,790,536)	(19,679,532)
Accumulated other comprehensive income	248,972	-	-
Total Shareholders' Equity (deficit)	6,807,530	3,999,011	(692,223)
Total Liabilities & Shareholders' Equity (deficit)	\$ 7,157,754	6,297,734	582,277

See Accompanying Notes to Consolidated Financial Statements.

PROVED ON BEHALF OF THE BOARD:

Steven Moore
President / CEOMichael Noonan
CFO

BRS Resources Ltd.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Number of Common Shares	Share Capital	Share Subscriptions	Contributed Surplus	Accumulated Deficit	Accumulated other Comprehensive Income	Total Equity
Balance, November 1, 2010	5,188,622	\$ 18,049,724	\$ -	\$ 937,585	\$ (19,679,532)	\$ -	\$ (692,223)
Equity offering, net of issuance cost	25,678,200	5,967,264	-	-	-	-	5,967,264
Shares issued for debt	1,010,800	252,700	-	-	-	-	252,700
Shares issued for properties	750,000	195,113	-	-	-	-	195,113
Reclassify unpaid subscription	-	-	(25,000)	-	-	-	(25,000)
Share based compensation	-	-	-	1,412,161	-	-	1,412,161
Net loss for period	-	-	-	-	(3,111,004)	-	(3,111,004)
Balance, October 31, 2011	32,627,622	24,464,801	(25,000)	2,349,746	(22,790,536)	-	3,999,011
Equity offering, net of issuance cost	20,000,000	6,000,000	-	-	-	-	6,000,000
Warrants exercised	97,154	30,646	-	-	-	-	30,646
Share subscription paid	-	-	25,000	-	-	-	25,000
Share based compensation	-	-	-	432,574	-	-	432,574
Net loss for period	-	-	-	-	(3,928,673)	-	(3,928,673)
Foreign translation gain	-	-	-	-	-	248,972	248,972
Balance, October 31, 2012	52,724,776	\$ 30,495,447	\$ -	\$ 2,782,320	\$ (26,719,209)	\$ 248,972	\$ 6,807,530

See Accompanying Notes to Consolidated Financial Statements.

BRS Resources Ltd.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended October 31,	
	2012	2011
OPERATIONS		
Net loss	\$ (3,928,673)	(3,111,004)
Add items not affecting cash:		
Amortization expense on discount of debt	1,343,771	-
Fair value adjustment of derivative liability	(1,199,513)	-
Depletion, depreciation and amortization	66,946	34,856
Stock based compensation	432,574	1,412,161
Impairment expense	-	125,000
Loss on sale of assets	160,128	-
Other-net	-	(207)
	<u>(3,124,767)</u>	<u>(1,539,194)</u>
Change in non-cash working capital balances related to operations:		
Increase in accounts and other receivables	(63,022)	(96,154)
(Increase) decrease in due from related parties	81,808	(189,774)
Increase in inventory	(68,975)	-
Increase in prepaid expenses	(19,417)	(12,307)
Increase (decrease) in accounts payable and accrued expenses	(187,551)	187,911
Decrease in due to related parties	(12,663)	(303,150)
	<u>(3,394,587)</u>	<u>(1,952,668)</u>
FINANCING		
Issuance of common convertible debt	6,000,000	5,942,264
Warrants exercised	30,646	-
Decrease in notes payable	(1,890,193)	(500,382)
Proceeds from Subscription Receivable	25,000	-
	<u>4,165,453</u>	<u>5,441,882</u>
INVESTING		
Petroleum and natural gas properties:		
Proceeds from sale of assets	19,976	-
Acquisition costs	(699,690)	(3,014,190)
Acquisition of equipment	(16,435)	(61,630)
Increase in other restricted assets	(102,348)	(96,143)
	<u>(798,497)</u>	<u>(3,171,963)</u>
Effect of foreign exchange on cash balances	248,972	-
Increase in cash	221,341	317,251
Cash, beginning of period	322,836	5,585
CASH, end of period	<u>\$ 544,177</u>	<u>322,836</u>

During the year ended October 31, 2012, the Company paid \$19,939 (2011: \$20,249) in interest charges.

During 2012 convertible debt in the amount of \$6,000,000 was converted into 20,000,000 common shares.

During 2011 the Company issued 1,010,800 units at \$0.25 to settle debt of \$252,700.

During the year ended October 31, 2012 the asset retirement obligation decreased \$2,458 due to sale of properties.

During 2011 asset retirement obligation increased \$2,351.

See Accompanying Notes to Consolidated Financial Statements.

BRS Resources Ltd.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended October 31, 2012 and 2011

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 Italy through its investment in AleAnna Energy, LLC.

The recoverability of amounts recorded as petroleum and natural gas assets is dependent upon the discovery of economically recoverable reserves. These consolidated 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, 2012 has a net working capital of \$ 675,685 (working capital deficiency - October 31, 2011 - \$ 1,668,544). 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 statements of financial position.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee. These are the Company's first consolidated annual financial statements presented in accordance with IFRS.

Basis of Accounting

These consolidated financial statements have been prepared on a historical cost basis. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting. The accounting policies set out below were used to prepare the opening IFRS consolidated statement of financial position at November 1, 2010 for the purposes of transitioning to IFRS, and have been applied consistently for all periods presented in these consolidated financial statements.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company's wholly-owned subsidiary, Bonanza Resources (Texas), Inc. ("Bonanza Resources") and its pro-rata share of AleAnna Energy, LLC ("AleAnna Energy"). All significant intercompany balances and transactions have been eliminated in consolidation.

BRS Resources Ltd.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended October 31, 2012 and 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The following is summarized financial information of the Company's ownership in AleAnna Energy as of October 31, 2012 and 2011:

	2012	2011
Total assets	\$6,455,103	\$7,155,561
Total liabilities	60,184	1,322,087
Net loss	1,389,895	180,691
Ownership percentage	49%	49%

Functional and presentational currency

These consolidated financial statements are presented in Canadian dollars, which is both the functional and the presentation currency of the Company.

Use of estimates and judgments

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on a regular basis and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Specific amounts and disclosures affected by estimates and assumptions are: (i) amounts recorded for depletion and depreciation expense and amounts used for impairment test calculations are based on estimates of crude oil reserves and future costs required to develop those reserves on a Cash Generating Unit ("CGU") basis; (ii) stock-based compensation is based upon expected volatility and option life estimates; (iii) decommissioning liabilities and the related accretion are based on estimates of abandonment costs, timing of abandonment, inflation and interest rates; (iv) the provision for income taxes is based on judgments in applying income tax law and estimates on the timing, likelihood and reversal of temporary differences between the accounting and tax base of assets and liabilities; (v) amount used for impairment calculations for long term assets are based on estimates of future cash flows and capitalization rate on a CGU basis; and (vi) the decision to record (or not record) liabilities and contingencies are based on the estimates of the probability of outcomes and estimates of future cash flows.

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. The Company did not have any cash equivalents at October 31, 2012 or 2011.

Exploration and evaluation ("E&E") Expenditures

Pre-license expenditures including geological and geophysical exploration cost, are expensed in the period in which they are incurred. All costs directly associated with the exploration and evaluation of crude oil and gas reserves are initially capitalized as an intangible asset on a prospect-by-prospect basis. Exploration and evaluation costs are those expenditures for a prospect where technical feasibility and commercial viability has not yet been determined. All carried costs are subject to technical, commercial and management review at least once a year to confirm the continued intent to develop or otherwise extract value from the discovery. When a prospect is determined to be technically feasible and commercially viable, the accumulated costs are assessed for impairment and then transferred to property, plant and equipment. When a field is determined not to be technically feasible and commercially viable or the Company decides not to continue with its activity, the unrecoverable costs are charged to net income as exploration and evaluation expense.

BRS Resources Ltd.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended October 31, 2012 and 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment ("P&E")

All costs directly associated with the development of crude oil and gas reserves are capitalized on a field-by field basis. The oil and gas properties' asset includes expenditures for areas where technical feasibility and commercial viability has been determined. These costs include proved property acquisitions, development drilling, completion, gathering and infrastructure, asset retirement costs and transfers from exploration and evaluation assets. Costs accumulated within each area are depleted using the unit-of-production method based on proved plus probable reserves using estimated future prices and costs. Costs subject to depletion include estimated future costs to be incurred in developing proved and probable reserves. Costs of major development projects are excluded from the costs subject to depletion until they are available for use. For divestitures of properties, a gain or loss is recognized in net income. Exchanges of properties are measured at fair value, unless the transaction lacks commercial substance or fair value cannot be reliably measured. Where the exchange is measured at fair value, a gain or loss is recognized in net income.

Equipment is recorded at costs less accumulated depreciation. Depreciation is recognized on the straight-line basis based on a 3 to 7 year useful lives.

Interests in joint ventures

A joint venture is a contractual arrangement whereby two or more parties (venturers) undertake an economic activity that is subject to joint control. Joint control exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the venturers. A jointly controlled entity is a joint venture that involves the establishment of a company, partnership or other entity to engage in economic activity that the group jointly controls with its fellow venturers. The results, assets and liabilities of a jointly controlled entity are incorporated in these financial statements using the proportionate consolidation method of accounting. Proportionate consolidation allows for an entity in the extractive industry to account for their proportionate share of the assets, liabilities, revenues and expenses of the unincorporated entity on their Consolidated Statements of Financial Position and Consolidated Statements of Comprehensive Loss. All significant intercompany balances and transactions have been eliminated in consolidation.

Financial statements of jointly controlled entities are prepared for the same reporting year as the group. The group assesses investments in jointly controlled entities for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication of impairment exists, the carrying amount of the investment is compared with its recoverable amount, being the higher of its fair value less costs to sell and value in use. Where the carrying amount exceeds the recoverable amount, the investment is written down to its recoverable amount.

Maintenance and Repairs

Expenditures related to renewals or betterments that improve the productive capacity or extend the life of an asset are capitalized. Maintenance and repairs are expensed as incurred.

Corporate and other property and equipment

Other tangible non-current assets are stated at historical cost. Depreciation is calculated using the straight line method over the estimated life of the asset.

Impairment

E&E and producing oil and gas properties are accumulated in cash-generating units ("CGU's") on the basis of geographical fields having regard to the operational infrastructure (such as facilities and sales points) of the area, and are the lowest level at which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets. E&E assets are assessed for impairment on a well by well basis. Other long term assets are accumulated in CGU's at the lowest level at which there are identified cash flows that are largely independent of the cash flows of other areas of assets.

At the end of each reporting period, the Company assesses the CGU's for circumstances that indicate that the assets may be impaired. If any such indication of impairment exists, the Company makes an estimate of its recoverable amount. A CGU's recoverable amount is the higher of its fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU's exceeds its recoverable amount, the asset is considered impaired and is written-down. E&E assets representing unproven oil and gas 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 unproven property under one or more of the following conditions:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended October 31, 2012 and 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- i) There are no firm plans for further drilling on the unproven property;
- ii) Negative results were obtained from studies of the unproven property;
- iii) Negative results were obtained from studies conducted in the vicinity of the unproven property; or
- iv) The remaining term of the unproven properties does not allow sufficient time for further studies or drilling or the Company's title interest has lapsed.

For impairment losses identified based on a CGU, the loss is allocated on a pro rata basis to the assets within the CGU(s). The impairment loss is recognized as an expense in the consolidated statement of comprehensive loss.

Where the circumstances that gave rise to an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, so that the revised carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or CGU) in prior years. A reversal of an impairment loss is recognized immediately in the consolidated statement of comprehensive loss.

For impairment test purposes, corporate assets are allocated to each of the CGU's on the basis of proportionate future net revenue consistent with the recoverable amount.

Financial instruments

All financial assets and liabilities are recognized on the consolidated statement of financial position initially at fair value when we become a party to the contractual provisions of the instrument. Subsequent measurement of the financial instruments is based on their classification.

We classify each financial instrument into one of the following categories: loans or receivables, notes receivable, fair value through profit and loss and other financial liabilities. The classification depends on the characteristics and the purpose for which the financial instruments were acquired. Except in limited circumstances, the classification of financial instruments is not subsequently changed.

Financial instruments carried at fair value on the Company's consolidated statement of financial position include cash. Realized and unrealized gains and losses from financial assets and liabilities carried at fair value are recognized in net income in the periods such gains and losses arise. Transaction costs related to these financial assets and liabilities are included in net income when incurred.

Financial instruments carried at cost or amortized cost includes the Company's accounts and other receivables, accounts payable and accrued liabilities, and long-term debt. Transaction costs are included in net income when incurred for these types of financial instruments except long-term debt. These transaction costs are included with the initial fair value, and the instrument is carried at amortized cost using the effective interest rate method. Gains and losses on financial assets and liabilities carried at cost or amortized cost is recognized in net income when these assets or liabilities settle.

Decommissioning liabilities

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

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

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.

BRS Resources Ltd.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended October 31, 2012 and 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Loss Per Share

The Company computes basic loss per share using net loss divided by the weighted-average number of common shares outstanding.

The Company computes diluted loss per share using net loss divided by the weighted-average number of diluted common shares outstanding. The Company uses the treasury method in computing the weighted-average number of diluted common shares outstanding. This method assumes that the proceeds on exercise of in-the-money stock options and warrants are used to repurchase the Company's common shares at the average market price during the relevant period. The number of diluted common shares outstanding also reflects the potential dilution that would occur if the convertible debentures were converted into common shares at the beginning of the period, or when they were issued.

Foreign Currency Translation

The Canadian dollar is the functional currency of the Company. The United States dollar is the functional currency for Bonanza Resources and AleAnna Energy. Monetary assets and liabilities denominated in currency other than the presenting currency are translated at the exchange rate in effect at the date of the consolidated statement of financial position. Non-monetary assets, liabilities, revenues and expenses are translated at transaction date exchange rates. Exchange gains or losses are included in the determination of comprehensive loss.

Leases

The Company classifies leases entered into as either finance or operating leases. Leases that transfer substantially all of the risks and benefits of ownership are capitalized as finance leases within P&E and other liabilities. All other leases are recorded as operating leases and expensed as incurred within operating expenses.

Stock-Based Compensation

The Company uses the fair value method of accounting for all stock-based awards to non-employees and employees, including those that are direct awards of stock. Under the fair value method, employee compensation expense attributed to direct awards of stock is measured at the fair value of the award at the grant date using the Black-Scholes option-pricing model and is recognized over the vesting period of the award. If and when the stock options are ultimately exercised by the recipient of the awards, the applicable amounts of contributed surplus are credited to share capital.

Derivative Instruments

For derivative instruments that are accounted for as liabilities, the derivative instrument is initially recorded at its fair value and is then re-valued at each reporting date, with changes in fair value recognized in income each reporting period. For warrant derivative instruments, the Company uses the Black-Scholes model to value the derivative instruments at inception and subsequent valuation dates. The classification of derivative instruments, including whether such instruments should be recorded as a liability or as equity, is re-assessed at the end of each reporting period. Derivative instrument liabilities are classified in the balance sheet as current or non-current based on whether or not the net-cash settlement of the derivative instrument could be required within 12 months of the balance sheet date.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended October 31, 2012 and 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 reasonable determinable and are charged against operations over the estimated remaining life of the related business operations, net of expected recoveries.

Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity, net of any tax effects.

Income Taxes

The tax expense for the period comprises current and deferred tax. Tax is recognized in comprehensive income (loss), except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the consolidated statement of financial position date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Accounting standards issued but not yet effective

The Company is currently reviewing the following new and revised accounting pronouncements that have been issued but are not yet effective to determine if they may have an impact on the Company: Amendments to IFRS 7 Financial Instruments: Disclosures - Increase in disclosure with regards to the transfer of financial assets, especially if there is a disproportionate amount of transfer transactions that take place around the end of a reporting period.

Effective for annual periods beginning on or after January 1, 2013

New standard IFRS 9 *Financial Instruments*

Partial replacement of IAS 39 *Financial Instruments: Recognition and Measurement*

The Company has not early adopted these revised standards and is currently assessing the impact that these standards will have on the consolidated financial statements, if any.

3. RISKS AND CONCENTRATIONS

The Company's activities expose it to a variety of financial risks, including market risk, credit risk and liquidity risk.

Market risk

Market risk is the possibility that changes in foreign exchange rates, interest rates and the prices of oil and gas products will adversely affect the value of assets, liabilities and expected future cash flows.

BRS Resources Ltd.

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Years ended October 31, 2012 and 2011

3. RISKS AND CONCENTRATIONS

The Company is engaged in a wide range of oil and gas products-related activities. Prices of oil and gas products are affected by a wide range of global and domestic factors which are beyond the control of the Company. The fluctuations in such prices may have favorable or unfavorable impacts on the Company. The Company believes that its market risk is not material.

Credit risk

Credit risk arises from cash and credit exposure to customers with outstanding receivable balances.

The Company's financial instruments exposed to concentrations of credit risk consist primarily of cash and accounts receivable. The Company places its cash with reputable financial institutions. At times, the balances deposited may exceed amounts covered by insurance provided by the U.S. Federal Deposit Insurance Corporation ("FDIC"). The Company has not incurred any losses related to amounts in excess of FDIC limits.

Foreign Exchange risk

The Company has foreign exchange risk due to activities carried out in the United States and Italy. At October 31, 2012, the Company had \$840,051 in current assets and \$180,091 in current liabilities originating in the United States.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities.

In managing its liquidity risk, the Company has access to funding at market rates through equity and debt markets. The Company may issue new shares, adjust its debt levels or mix between short-term and long-term borrowings.

Capital management

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern, optimize returns for its owners and to minimize its cost of capital. In meeting its objectives of managing capital, the Company may issue new shares, adjust its debt levels or the mix between short-term and long-term borrowings.

Fair value measurements

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

Fair value measurements

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

BRS Resources Ltd.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended October 31, 2012 and 2011

3. RISKS AND CONCENTRATIONS (continued)

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

4. PROJECTS

Po Valley and Bradano Basins, Italy

In Italy, AleAnna Resources holds eight "Exploration Permits" and three "Applications for Exploration Permits", totalling approximately 803,000 acres that have been approved by the Italian Ministry of Economic Development (General Directorate for Energy and Mining Resources, National Mining Office for Hydrocarbons and Geothermics) (the "Ministry"). Nine of the exploration permit applications, totalling 670,396 acres, are located in the Po Valley in northern Italy, and three exploration permit applications, totalling 132,483 acres, are located in the Bradano Basin in southern Italy.

AleAnna Resources has completed three large-scale 3-D geophysical surveys, acquiring more than 100,000 acres (400 sq. km) of data in northern Italy and developing the largest portfolio of 3-D geophysical data for onshore Italy. The processed and interpreted data is critical in identifying and mapping large, drillable subsurface geological structures containing commercial quantities of hydrocarbons.

AleAnna Resources is now turning its operational emphasis from seismic data acquisition to drilling. Numerous drilling prospects have been identified from processing and interpreting 3-D geophysical data acquired during recent surveys. A number of applications for drilling permits will be filed with the Italian government the spring of 2013 and several wells are expected to be drilled in late 2013 or early 2014.

Corte Dei Signori Permit

AleAnna Resources completed a 31,100 acre (126 sq. km) 3-D geophysical survey in the Corte Dei Signori permit area in 2009 and has reprocessed the data several times utilizing the latest in geophysical processing applications. The Corte Dei Signori permit area is located in south-eastern Po Valley, and is on trend with a number of large natural gas fields. In February 2012, AleAnna Resources drilled the Gallare 6d well in the Gallare Field. Gallare 6d well encountered gas shows while drilling through the targeted zones of interest; however, the reservoir was substantially depleted. The gas shows along with the modern log suites run in the Gallare well, are being used to further refine seismically driven exploration targets. AleAnna Resources has identified a number of attractive exploration targets, in multiple areas and multiple horizons in the Corte Dei Signori permit area. Seismic interpretation is ongoing, and AleAnna Resources expects to submit additional well applications in the near future.

Ponte Del Diavalo Permit

In 2012, AleAnna Resources completed a 33,600 acre (136 sq. km) 3-D geophysical survey in the Ponte Del Diavalo permit area. The 64,000 acre (258 sq. km) Ponte Del Diavalo permit area is located in south-eastern Po Valley; slightly northwest of the Corte dei Signori permit area. The Ponte Del Diavalo geophysical data indicates several amplitude anomalies are present which appear attractive for exploratory drilling. AleAnna Resources expects to submit at least one well application in early 2013.

Ponte Dei Grilli Permit

AleAnna Resources acquired its third 3-D geophysical survey on the Ponte Dei Grilli permit. Permitting activity commenced in March 2012 on 17,000 acres (70 sq. km) and acquisition began in May 2012 and was completed in early August 2012. The Ponte Dei Grilli geophysical data is in the initial phases of processing and interpretation. Preliminary interpretation suggests a number of geophysical anomalies exist which are under current evaluation. These anomalies are on trend with producing fields adjacent to this permit and one anomaly appears analogous to the nearby San Potito and the recently discovered Longanesi gas fields. AleAnna Resources expects to submit at least one well application in 2013.

BRS Resources Ltd.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended October 31, 2012 and 2011

4. PROJECTS

Other Activity in Italy

Two other permitted areas in the Po Valley (Belgioioso and Fantozza) have had 3D seismic surveys designed. These permit surveys were tendered for bid to multiple acquisition companies in early 2012 with acquisition planned for early 2013. However, this work has been delayed at the request of the regional governments as a result of the earthquakes earlier this year in Northern Italy. AleAnna Resources anticipates acquisition of several existing 2D lines in early 2013 and then re-tender of 3D geophysical work in mid-2013.

Technical work on the Tre Ponte and Le Saline applications for exploration permits is ongoing at 10/31/2012 and AleAnna Resources expects applications to move these areas to exploration permit status in calendar year 2013. Technical work has also begun on the Torrente Acqua Fredda permit area in the Bradano Basin in southern Italy. In addition, AleAnna has begun a review of available exploration prospects generated by other companies in Italy, particularly those prospects in proximity to the AleAnna Resources permits. We are in the process of evaluating several of these operated opportunities.

Lasley Project, Caddo County, Oklahoma, USA - The Company sold its interest in the Lasley Project effective October 31, 2012. A loss on the sale of \$165,102 was recognized on the sale.

Texas, USA - The Company sold its interest in the XX Ranch property effective April 30, 2012. The property had been fully impaired in prior years. A gain on the sale of \$4,976 was recognized on the sale.

5. EXPLORATION AND EVALUATION ASSETS

Exploration and evaluation assets ('E&E assets') mainly comprise property, geological survey and capitalized exploration drilling costs in respect of non-commercially assessed fields. Management considers the E&E assets to be of an intangible asset.

Management generally evaluates the recoverability of the E&E assets on an annual basis; however the ultimate recoverability of such assets is dependent on management's intention to incur the costs necessary to determine the commercial feasibility of the fields. If management decides to forgo such costs and was to convey the E&E assets to a third party, the ultimate recoverability is uncertain.

	E&E Assets
Balance November 1, 2010	\$ 125,000
Property acquisitions	2,167,704
Impairment reduction	(125,000)
Exploration and evaluation expenditures	251,529
Transfer to property and equipment	(982,346)
Balance October 31, 2011	<u>1,436,887</u>
Transfer from property and equipment	3,577,730
Exploration and evaluation expenditures	953,900
Balance October 31, 2012	<u>\$ 5,968,517</u>

BRS Resources Ltd.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended October 31, 2012 and 2011

6. PROPERTY AND EQUIPMENT

Property and Equipment	Proved Developed		Proved		Well Equipment	Office Equipment	Total
	Producing Properties U.S.	Properties Italy	Undeveloped Properties Italy	Properties Italy			
Balance November 1, 2010	\$ 831,332	\$ -	\$ -	\$ -	\$ 161,952	\$ 8,400	\$ 1,001,684
Additions	1,982	-	-	-	-	61,723	63,705
Transfer from Exploration and Evaluation Assets	-	-	3,819,889	-	-	-	3,819,889
Retirements	(33,285)	-	-	-	-	-	(33,285)
Balance October 31, 2011	800,029	-	3,819,889	-	161,952	70,123	4,851,993
Additions	125	-	863,814	-	-	12,036	875,975
Dry hole costs charged to operations	-	-	(1,105,973)	-	-	-	(1,105,973)
Transfer to Exploration and Evaluation Assets	-	-	(3,577,730)	-	-	-	(3,577,730)
Properties Sold	(800,154)	-	-	-	(161,952)	-	(962,106)
Balance October 31, 2012	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 82,159	\$ 82,159

Accumulated Depreciation and Depletion	Proved Developed		Proved		Well Equipment	Office Equipment	Total
	Producing Properties U.S.	Properties Italy	Undeveloped Properties Italy	Properties Italy			
Balance November 1, 2010	\$ 595,604	\$ -	\$ -	\$ -	\$ 114,783	\$ 5,256	\$ 715,643
Additions	9,673	-	-	-	18,386	6,798	34,857
Other changes	(35,318)	-	-	-	1,549	-	(33,769)
Balance October 31, 2011	569,959	-	-	-	134,718	12,054	716,731
Additions	44,247	-	-	-	8,000	14,698	66,945
Properties Sold	(611,882)	-	-	-	(142,718)	-	(754,600)
Other changes	(2,324)	-	-	-	-	44	(2,280)
Balance October 31, 2012	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 26,796	\$ 26,796

Net Book Value	Proved Developed		Proved		Well Equipment	Office Equipment	Total
	Producing Properties U.S.	Properties Italy	Undeveloped Properties Italy	Properties Italy			
November 1, 2010	\$ 235,728	\$ -	\$ -	\$ -	\$ 47,169	\$ 3,144	\$ 286,041
October 31, 2011	\$ 230,070	\$ -	\$ 3,819,889	\$ -	\$ 27,234	\$ 58,069	\$ 4,135,262
October 31, 2012	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 55,363	\$ 55,363

BRS Resources Ltd.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended October 31, 2012 and 2011

7. NOTES PAYABLE

	Outstanding October 31, 2011			Repayments/ Conversions	Outstanding October 31 2012	
		Additions				
Acquisition notes payable	\$ 1,890,193	\$ -	\$ 1,890,193	\$ -		
Convertible notes		6,000,000	6,000,000			
	<u>\$ 1,890,193</u>	<u>\$ 6,000,000</u>	<u>\$ 7,890,193</u>	<u>\$ -</u>		

The acquisition notes payable outstanding at October 31, 2011 resulted from short term financing of the Company's share of an additional acquisition of a 20% interest in AleAnna Resources by AleAnna Energy in October 2011. The note bore interest at 10% per annum and, along with accrued interest due, was paid in full on November 4, 2011.

In conjunction with the issuance of debt a discount was recognized for the value of the detachable warrants in Note 9.

8. INCOME TAXES

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

	2012	2011
Combined Statutory tax rate	<u>29.49%</u>	<u>28.88%</u>
Income recovery at statutory rate	\$ (1,158,565)	(902,824)
Increase resulting from stock based compensation	-	407,832
Equity issuance cost	199,170	(26,124)
Other	28,672	114,634
Valuation of tax loss carry forward	930,723	406,482
Future income Tax	<u>\$ -</u>	<u>-</u>

The future income taxes payable consist of the following temporary differences:

Non-Capital losses	\$ 2,446,554	1,935,741
Property and equipment, net of asset retirement obligation	-	(1,027)
Unrealized loss on partnership interest	345,666	-
Other	54,144	(19,073)
Valuation Allowance	(2,846,364)	(1,915,641)
	<u>\$ -</u>	<u>-</u>

The Company has non-capital loss carry-forwards and allowances of approximately \$4,508,038 for Canadian tax purposes and \$3,222,094 for U. S. tax purposes. These losses expire from 2014 to 2031 and are available to offset future taxable income.