BRS RESOURCES LTD.

DALLAS, TEXAS, USA

CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2013 and 2012

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, 2014

whitleypenn

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of BRS Resources Ltd.,

We have audited the accompanying consolidated financial statements of BRS Resources, Ltd. ("the Company"), which comprise the consolidated statements of financial position as at October 31, 2013 and 2012 and the consolidated statements of comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits 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 our 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, we consider 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 is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at October 31, 2013 and 2012, and of its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, 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 their investment in their oil and gas properties and attain profitable operations is dependent upon the discovery, development and sale of oil and gas reserves. Management plans in regard to these matters are also described in Note 1. 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.

Whitley Penn LLP

Fort Worth, Texas
February 28, 2014

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

		Year Ended October 31,		
		2013		2012
REVENUE				
Oil and gas	$	-		34,854
Management fee		245,618		196,044
		245,618		230,898
EXPENSES				
Wages and benefits		578,308		608,196
Stock based compensation		107,867		432,574
Engineering and consulting fees		176,521		368,858
Legal and accounting		273,683		350,879
Office and general		180,059		239,450
Rent		73,189		73,757
Investor relations		50,985		80,554
Depletion, depreciation and amortization		16,439		66,946
Regulatory fees		19,526		46,088
Travel		26,995		31,218
Production costs		-		26,901
Non-productive drilling costs		134,456		1,105,973
Loss on sale of assets and other losses		-		196,081
		1,638,028		3,627,475
LOSS BEFORE OTHER ITEMS AND INCOME TAXES		(1,392,410)		(3,396,577)
Debt discount amortization		(210,543)		(1,343,772)
Change in fair value of derivative liability		177,463		1,199,513
Interest expense		(73,208)		(414,135)
Interest and other income		28,495		26,298
NET LOSS		(1,470,203)		(3,928,673)
Foreign currency translation gain (loss)		(149,057)		248,972
Comprehensive Loss	$	(1,619,260)		(3,679,701)
LOSS PER SHARE (basic and diluted)	$	(0.03)	$	(0.08)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING (basic and diluted)		52,724,776		51,237,241

See Accompanying Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		October 31, 2013	October 31, 2012
ASSETS			
Current:			
Cash	$	**556,975**	544,177
Accounts and other receivables		**14,788**	22,075
Notes receivable-current		**5,214**	11,995
Due from related parties		**263,231**	249,517
Prepaid expenses		**4,603**	35,645
Total Current Assets		**844,811**	863,409
Other restricted assets		**167,514**	198,491
Notes receivable-non current		-	2,999
Oilfield equipment inventory		**50,136**	68,975
Exploration and evaluation assets *[Notes 4 and 5]*		**5,534,918**	5,968,517
Property and equipment *[Note 6]*		**44,764**	55,363
Total Assets	$	**6,642,143**	7,157,754
LIABILITIES			
Current:			
Accounts payable and accrued expenses	$	**146,710**	168,319
Due to related parties		-	19,405
Note payable-net of discount *[Note 7]*		**856,403**	-
Total Current Liabilities		**1,003,113**	187,724
Derivative liability *[Note 12]*		**320,936**	144,259
Lease inducement payable		**21,957**	18,241
Total Liabilities		**1,346,006**	350,224
SHAREHOLDERS' EQUITY			
Share capital *[Note 9]*		**30,495,447**	30,495,447
Contributed surplus *[Note 10]*		**2,890,187**	2,782,320
Deficit		**(28,189,412)**	(26,719,209)
Accumulated other comprehensive income		**99,915**	248,972
Total Shareholders' Equity		**5,296,137**	6,807,530
Total Liabilities & Shareholders' Equity	$	**6,642,143**	7,157,754

See Accompanying Notes to Consolidated Financial Statements

APPROVED ON BEHALF OF THE BOARD:

Steven Moore	***Michael Noonan***
President / CEO	CFO

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Number of Common Shares	Share Capital	Share Subscriptions	Contributed Surplus	Accumulated Deficit	Acciumulated Other Comprehensive Income	Total Equity
Balance, October 31, 2011	32,627,622	$ 24,464,801	$ (25,000)	$ 2,349,746	$ (22,790,536)	$ -	$ 3,999,011
Equity offering	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
Share based compensation	-	-	-	107,867	-	-	107,867
Net loss for period	-	-	-	-	(1,470,203)	-	(1,470,203)
Foreign translation loss	-	-	-	-	-	(149,057)	(149,057)
Balance, October 31, 2013	52,724,776	$ 30,495,447	$ -	$ 2,890,187	$ (28,189,412)	$ 99,915	$ 5,296,137

See Accompanying Notes to Consolidated Financial Statements

BRS Resources Ltd.

CONSOLIDATED STATEMENTS OF CASH FLOWS

		Year Ended October 31,	
		2013	2012
OPERATIONS			
Net loss	$	**(1,470,203)**	(3,928,673)
Add items not affecting cash:			
Amortization expense on discount of debt		**210,543**	1,343,771
Fair value of derivative liability		**(177,463)**	(1,199,513)
Depletion, depreciation and amortization		**16,439**	66,946
Stock based compensation		**107,867**	432,574
Non-productive drilling costs		**134,456**	-
Loss on sale of assets		-	160,128
		(1,178,361)	(3,124,767)
Change in non-cash working capital balances related to operations:			
Decrease (increase) in accounts and other receivables		**7,287**	(63,022)
(Increase) decrease in due from related parties		**(13,714)**	81,808
Decrease (increase) in oilfield equipment inventory		**18,839**	(68,975)
Decrease (increase) in prepaid expenses		**31,019**	(19,417)
Decrease in accounts payable and accrued expenses		**(21,609)**	(187,551)
Decrease in due to related parties		**(19,405)**	(12,663)
Increase in lease inducement liability		**3,716**	-
		(1,172,228)	(3,394,587)
FINANCING			
Issuance of common conertible debt		-	6,000,000
Warrants exercised		-	30,646
Decrease in notes payable		-	(1,890,193)
Increase in note payable		**1,000,000**	-
Proceeds from subscriptions receivable		-	25,000
		1,000,000	4,165,453
INVESTING			
Petroleum and natural gas properties:			
Proceeds from conveyance of oil and gas properties		**392,687**	19,976
Exploration and evaluation expenditures		**(93,544)**	(699,690)
Acquisition of equipment		**(5,817)**	(16,435)
Decrease (increase) in other restricted assets		**30,977**	(102,348)
Collection of notes receivable		**9,780**	-
		334,083	(798,497)
Effect of foreign exchange on cash balances		**(149,057)**	248,972
Increase in cash		**12,798**	221,341
Cash, beginning of period		**544,177**	322,836
CASH, end of period	$	**556,975**	$ 544,177

During the period ended October 31, 2013, the Company paid no interest, $19,939 in 2012.
During 2012 convertible debt in the amount lf $6,000,000 was converted into 20,000,000 common shares
During 2012 the asset retirement obligation decreased $2,456 due to sale of properties

See Accompanying Notes to Consolidated Financial Statements

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. ("Bonanza Resources"), a Texas corporation and its pro-rata share of the accounts of AleAnna Energy, LLC ("AleAnna Energy"), a Delaware Limited Liability Company, which includes its pro-rata share of the accounts of AleAnna Resources, LLC ("AleAnna Resources"), 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.

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, 2013 has a net working capital deficiency of \$ 158,302 (October 31, 2012 - \$ 675,685). 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.

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 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 and its pro-rata share of AleAnna Energy. All significant intercompany balances and transactions have been eliminated in consolidation.

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:

	2013	2012
Total assets	$ 6,119,350	$ 6,455,103
Total liabilities	55,404	60,184
Net loss	341,790	1,389,895
Ownership percentage	49%	49%

Functional and presentational currency

These consolidated financial statements are presented in Canadian dollars, which are both the functional and the presentational 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, 2013 or 2012.

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 loss as exploration and evaluation expense.

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 loss. 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 loss.

Equipment is recorded at costs less accumulated depreciation. Depreciation is recognized on the straight-line basis based on 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 consolidated 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 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 levels 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:

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 statements 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 statements 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 statements 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 loss 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 note payable. Transaction costs are included in net loss when incurred for these types of financial instruments except note payable. 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.

Changes in derivative liabilities are recognized currently in earnings in the consolidated statement of comprehensive loss.

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 expenditures 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Management fees are from a related party and are recognized when earned, as services are performed.

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 loss each reporting period. For 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 statement of financial position 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.

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 loss, except to the extent that it relates to items recognized in other comprehensive loss or directly in equity. In this case, the tax is also recognized in other comprehensive loss 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:

Effective for annual periods beginning on or after January 1, 2014

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. 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. Accounts receivable are primarily from affiliated entities in which the Company holds a substantial investment. The Company has not incurred any losses in connection with the accounts receivable.

Foreign Exchange risk

The Company has foreign exchange risk due to activities carried out in the United States and Italy. At October 31, 2013, the Company had \$568,541 in current assets and \$72,400 in current liabilities originating in the United States (2012 - \$840,051 and 180,091, respectively.

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.

4. PROJECTS

Po Valley and Bradano Basins, Italy

AleAnna Resources holds nine "Exploration Permits" and three "Applications for Exploration Permits", totaling 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, 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 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 are being filed with the Italian government and several wells are expected to be drilled in 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. The 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.

In September 2013 AleAnna Resources executed a participation agreement and non-exclusive seismic agreement with Andiamo Resources, LLC ("Andiamo"), a Colorado limited liability company. Under the terms of the agreements, Andiamo paid AleAnna Resources a prospect/license fee and AleAnna Resources grant Andiamo a non-exclusive license to AleAnna Resources' propriety 3-D geophysical data acquired in the Corte dei Signori permit area. Andiamo will pay the costs to drill a well and in return will earn a beneficial working interest in a portion of the Corte Dei Signori permit.

AleAnna Resources will continue to operate the Corte dei Signori permit and anticipate drilling at least one exploration well in 2014. Andiamo has a strong technical team, which will work with AleAnna Resource's technical and operational personnel to develop drilling prospects.

4. PROJECTS (continued)

La Prospera Permit and Gradizza-1 Exploration Well
In May 2013 AleAnna Resources agreed to participate in the drilling of Po Valley Energy's Gradizza-1 exploration well in the La Prospera permit (north of Bologna in Italy's Po Valley), through a farm-in agreement executed between Po Valley Energy and AleAnna Resources. The agreement allows AleAnna Resources to earn a 10% interest in the La Prospera permit and the drilling of the Gradizza-1 exploration.

The Gradizza-1 well was drilled in August 2013 and is now in the process of being completed. The Gradizza-1 well encountered good gas shows and a drilling break in the target Pleistocene-age sand interval. After coring and logging, operations confirmed the presence of a gas-bearing reservoir exceeding 33 ft. (10 m) in thickness and 7-inch casing was run and cemented to a total depth of 3,372 ft. (1,028 m). The well was perforated from 2,808 to 2,822 ft. (856 to 860 m), gravel packed, and 2-3/8-inch production tubing installed.

The well tested natural gas at a stabilized rate of 696,000 cubic feet per day with 492 psi flowing tubing pressure on a ¼-inch choke. No formation water, pressure decline, or gas impurities were recovered during testing and the bottom-hole pressure measured was approximately 1,200 psi. The well is currently shut-in, waiting on installation of surface facilities, pipeline hookup, and regulatory approvals. The Gradizza-1 well is important to AleAnna and BRS in establishing production in Italy and in broadening and quantifying the prospect portfolio in adjacent permits.

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. To date AleAnna Resources has submitted a drilling permit for its Tombellina prospect. The proposed well is a 3,280 ft. (1,000 m) test of a seismically defined structure and amplitude in high-quality Pleistocene and Pliocene sands.

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 2014.

Other Activity in Italy
Two other permitted areas in the Po Valley (Belgioioso and Fantozza) have had 3-D geophysical surveys designed. These permit surveys were tendered for bid to multiple acquisition companies in early 2012 with acquisition planned for 2013. However, this work has been delayed at the request of the regional governments as a result of the recent earthquakes in Northern Italy. AleAnna Resources acquired several existing 2-D lines in 2013, and expects to re-tender 3-D geophysical work in 2014.

Technical work on the Tre Ponte and Le Saline applications for exploration permits is ongoing and AleAnna Resources expects applications to move these areas to exploration permit status in near future. Technical work has also begun on the Torrente Acqua Fredda permit area in the Bradano Basin in southern Italy. In addition, AleAnna Resources has begun a review of available exploration prospects generated by other companies in Italy, particularly those prospects in proximity to the AleAnna Resources permits. AleAnna Resources is in the process of evaluating several of these non-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 October 31, 2011	$	1,436,887
Exploration and evaluation expenditures		953,900
Transfer from property and equipment		3,577,730
Balance October 31, 2012		5,968,517
Exploration and evaluation expenditures		93,544
Non-productive drilling costs		(134,456)
Other reductions		(392,687)
Balance October 31, 2013	$	5,534,918

6. PROPERTY AND EQUIPMENT

Property and Equipment	Proved Developed Producing Properties U.S.	Proved Undeveloped Properties Italy	Well Equipment	Office Equipment	Total
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
Additions	-	-	-	5,817	5,817
Balance October 31, 2013	$ -	$ -	$ -	$ 87,976	$ 87,976

Accumulated Depreciation and Depletion	Proved Developed Producing Properties U.S.	Proved Undeveloped Properties Italy	Well Equipment	Office Equipment	Total
Balance October 31, 2011	$ 569,959	$ -	$ 134,718	$ 12,054	$ 716,731
Additions	44,247	-	8,000	14,698	66,945
Other changes	(2,324)	-	-	44	(2,280)
Properties Sold	(611,882)	-	(142,718)	-	(754,600)
Balance October 31, 2012	-	-	-	26,796	26,796
Additions	-	-	-	16,439	16,439
Other changes	-	-	-	(23)	(23)
Balance October 31, 2013	$ -	$ -	$ -	$ 43,212	$ 43,212

Net Book Value	Proved Developed Producing Properties U.S.	Proved Undeveloped Properties Italy	Well Equipment	Office Equipment	Total
October 31, 2012	$ -	$ -	$ -	$ 55,363	$ 55,363
October 31, 2013	$ -	$ -	$ -	$ 44,764	$ 44,764

7. NOTE PAYABLE

On March 28, 2013, the Company entered into a Senior Secured Convertible Note for interim financing to fund exploration requirements in Italy and other general corporate requirements. The loan is for $1,000,000, provides for interest accruing at the rate of 12% per annum compounded monthly, and is due March 28, 2014. In conjunction with the issuance of the debt, a discount was recognized for the value of the derivative at Note 12. As of October 31, 2013 the remaining discount is $143,597.

The holder of the note has the right, but not the obligation, to convert any unpaid principal balance of the note into fully paid and nonassessable common shares of the Company at a conversion rate of $0.075 per share, subject to adjustment under certain circumstances. Accrued interest can be converted into common shares at a conversion rate based on the market price in effect on the conversion date.

At October 31, 2013, $73,207 of accrued interest in connection with the note is included in accounts payable and accrued expenses in the statement of consolidated financial position.

8. INCOME TAXES

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

		2013		2012
Combined Statutory tax rate		31.30%		29.49%
Income recovery at statutory rate	$	(460,173)		(1,158,565)
Equity issuance cost		(28,313)		(65,173)
Non-deductible derivative activity		121,446		158,577
Other		(220,785)		(26,395)
Change in valuation allowance		587,825		1,091,556
Future income Tax	$	-		-

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

Non-Capital losses	$	3,172,565	$	2,463,614
Unrealized loss on partnership interest		209,369		397,647
Stock based compensation		611,164		544,012
Valuation Allowance		(3,993,098)		(3,405,273)
	$	-		-

The Company has non-capital loss carry-forwards and allowances of approximately $3,763,583 for Canadian tax purposes and $4,641,150 for U. S. tax purposes. These losses expire from 2023 to 2032 and are available to offset future taxable income.

9. SHARE CAPITAL

	October 31, 2013			October 31, 2012		
	Number		Amount	Number		Amount
Balance, beginning of period	52,724,776	$	30,495,447	32,627,622		24,464,801
Shares issued for cash	-		-	20,000,000		6,000,000
Warrants exercised	-		-	97,154		30,646
Balance, end of period	52,724,776	$	30,495,447	52,724,776	$	30,495,447

Warrants - The Company has issued stock warrants as follows:

Exercise Price	Outstanding October 31 2012	Additions	Exercised or Expired	Cancelled	Outstanding October 31 2013	Expiration Date
$0.30	1,571,046	-	1,571,046	-	-	December 1, 2012
$0.40	12,824,100	-	12,824,100	-	-	December 1, 2012
$0.40	505,400	-	-	-	505,400	December 1, 2013
$0.45	10,750,000	-	-	-	10,750,000	November 14, 2013
$0.30	1,500,000	-	-	-	1,500,000	November 4, 2014
Total	27,150,546	-	14,395,146	-	12,755,400	

In November 2011, the Company completed a private placement of 20,000,000 units in connection with issuing convertible debt at $0.30 per unit for gross proceeds of $6,000,000. 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 $0.45 per share until November 2013.

In connection with the private placement, the Company paid finder's fees of an aggregate cash payment of $390,000 and the issuance of an aggregate of 2,250,000 broker warrants (each, a "Broker Warrant"). 1,500,000 units of broker warrants are exercisable at a price of $0.30 per share until November 2014 and 750,000 units of broker warrants are exercisable at a price of $0.45 per share until November 2013, subject to a right of call by the Company under certain conditions.

10. CONTRIBUTED SURPLUS

		October 31, 2013	October 31, 2012
Balance, beginning of period	$	2,782,320	2,349,746
Add-stock based compensation		107,867	432,574
Balance, end of period	$	2,890,187	2,782,320

11. 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 10,534,525 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, 2013 there are options outstanding to issue 8,800,000 shares of the Company. The price of the options range from $0.10 to $0.50 and their expiry dates range from March 3, 2015 to May 7, 2018. The weighted average contract life remaining is 2.47 years.

The following is a summary of the change in the Company's stock option plan for the period ended October 31, 2013 and 2012.

	October 31, 2013		October 31, 2012	
	Number	Price	Number	Amount
Balance, beginning of period	6,130,000	$0.33	4,275,000	$0.35
Options granted during period	3,000,000	$0.10	1,855,000	$0.30
Options expired during period	(330,000)	$0.30	-	$0.30
Balance, end of period	8,800,000	$0.25	6,130,000	$0.33

The intrinsic value of options exercisable at October 31, 2013 and 2012 is zero.

The following table summarizes the information about stock options outstanding and exercisable at October 31, 2013:

Weighted Average Exercise Price per Share	Number Outstanding October 31, 2013	Weighted Average Remaining Contract Life
$0.10	3,000,000	4.50
$0.25	70,000	2.61
$0.27	680,000	2.13
$0.30	1,555,000	3.08
$0.35	3,360,000	2.25
$0.50	135,000	1.33
	8,800,000	2.47

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:

	2013	2012
Risk free interest rate	1.206%	1.382%
Expected dividend yield	0%	0%
Expected stock price volatility	112%	102%
Expected life of options	5 years	5 years

11. STOCK BASED COMPENSATION (continued)

The weighted average fair value of options granted during the year was $0.10. The amount of options exercisable at October 31, 2013 is 8,800,000 with a weighted average exercise price of $ 0.25.

12. DERIVATIVE LIABILITY

The Company evaluates each financial instrument issued to determine whether an instrument (or embedded feature) meets the qualifications to be classified as a derivative.

The warrants executed by the Company in November 2011 qualify as a derivative because these warrants have an adjustment provision applicable to the exercise price that adjusts the exercise price downward in the event we subsequently issue common stock, stock warrants, stock options or convertible debt with a stock price, exercise price or conversion price lower than the original exercise price of $0.45 per share. As a result, these warrants are not considered indexed to our stock, and as such, all future changes in the fair value of these warrants will be recognized currently in earnings in our consolidated statement of comprehensive loss under the caption "loss before other items and income taxes – Change in fair value of warrant derivative liability" until such time as the warrants are exercised or expire.

Since the exercise price of the warrants can be potentially decreased and the number of shares to settle the warrants increased each time a trigger event occurs that results in a new adjusted exercise price below the adjusted exercise price then in effect, there could be a potentially infinite number of shares required to settle the Warrant agreement. However, the Company has the capability of limiting the occurrence of such events.

The Company used the Black-Scholes valuation model to estimate the fair value of the warrant derivative liability, which is considered a level 2 fair value measurement. Significant assumptions used at October 31, 2012 were as follows:

Market value of stock on reporting date (1)	$ 0.12
Risk-free interest rate (2)	1.036%
Dividend yield (3)	0.00%
Volatility factor	113%
Expected life (4)	1.01 years

(1) The market value of the stock on the data of reporting was based on reported public market prices.
(2) The risk-free interest rate was determined by management using the U.S. Treasury zero-coupon yield over the contractual term of the warrant on date of reporting.
(3) Management determined the dividend yield to be 0% based upon its expectation that there will not be earnings available to pay dividends in the near term.
(4) Expected life is remaining contractual life of the warrants.

The convertible note executed by the Company in March 2013 qualifies as a derivative because it has an adjustment provision applicable to the exercise price that adjusts the exercise price downward in the event the Company subsequently issue common stock, stock warrants, stock options or convertible debt with a stock price, exercise price or conversion price lower than the original exercise price of $0.075 per share. As a result, the convertible note is not considered indexed to the Company's stock, and as such, all future changes in the fair value of these derivatives will be recognized currently in earnings in our consolidated statement of comprehensive loss under the caption "loss before other items and income taxes – Change in fair value of derivative liability" until such time as the convertible note payable is exercised or otherwise satisfied.

Since the exercise price of the conversion can be potentially decreased and the number of shares to settle the note increased each time a trigger event occurs that results in a new adjusted exercise price below the adjusted exercise price then in effect, there could be a potentially infinite number of shares required to settle the note agreement. However, the Company has the capability of limiting the occurrence of such events.

The Company used the Black-Scholes valuation model including a probability element to estimate the fair value of the derivative liability, which is considered a Level 2 fair value measurement. Significant assumptions used at October 31, 2013 were as follows:

12. DERIVATIVE LIABILITY (continued)

	October 31, 2013	Issuance Date March 28, 2013
Market value of stock (1)	$0.06	$0.08
Risk-free interest rate (2)	0.999%	0.999%
Divident yield (3)	0.00%	0.00%
Volatility factor	114%	80.00%
Expected life (4)	.41 year	1 year

(1) The market value of the stock on the data of reporting was based on reported public market prices.
(2) The risk-free interest rate was determined by management using the U.S. Treasury zero-coupon yield over the contractual term of the convertible note payable on date of reporting.
(3) Management determined the dividend yield to be 0% based upon its expectation that there will not be earnings available to pay dividends in the near term.
(4) Expected life is remaining contractual life of the conversion.

13. 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.

14. DECOMMISSIONING OBLIGATION

The Company has no liability for asset retirement obligations related to the plugging, abandonment, and remediation of oil and gas producing properties since the Company disposed of all of its interests in oil and gas wells as of October 31, 2012.

The following represents a reconciliation of the asset retirement obligations for the years ended October 31, 2013 and 2012:

		2013	2012
Decommissioning obligation at beginning of year	$	-	2,351
Decommissioning obligation increases in current year		-	-
Decommissioning obligation decreases in current year		-	(2,428)
Accretion of discount		-	77
Decommissioning obligation at end of year	$	-	-

15. REMUNERATOIN OF MANAGEMENT AND KEY MANAGEMENT PERSONNEL

Key management personnel are those persons having authority and responsibility for planning, directing, and controlling the activities of the Company. Key management personnel include the Chief Executive Officer ("CEO"), Chief Operating Officer ("COO") and Chief Financial Officer ("CFO").

		2013	2012
Wages and salaries	$	511,517	445,000

16. COMMITMENTS AND CONTINGENCIES

Office Lease

The Company leases its office space under a non-cancellable operating lease which expires in December 2015. Future minimum payments under this lease at October 31, 2013 are as follows:

2014	$	82,955
2015		82,955
2016		13,825
	$	179,735

Employment Agreements

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.

17. APPROVAL OF THE FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Board of Directors on February 27, 2014

18. 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, 2013 and 2012.

		October 31,	
		2013	2012
Business segment revenue:			
Oil and gas-United States	$	245,618	230,898
Oil and gas-Italy		-	-
Total revenue	$	245,618	230,898
Business segment loss			
Oil and gas-United States	$	814,601	1,276,518
Oil and gas-Italy		299,325	1,360,605
General administration		356,277	1,291,550
Net loss	$	1,470,203	3,928,673
Depletion and depreciation			
Oil and gas-United States	$	16,012	66,427
Oil and gas-Italy		-	-
General administration		427	519
Total depletion, depreciation and amortization	$	16,439	66,946
Capital expenditures			
Oil and gas-United States	$	5,817	43,783
Oil and gas-Italy		93,544	672,342
General administration		-	-
Total capital expenditures	$	99,361	716,125
Business segment assets			
Oil and gas-United States	$	394,526	800,679
Oil and gas-Italy		5,971,043	6,329,991
General administration		276,574	27,084
Total assets	$	6,642,143	7,157,754

19. 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.

During the period ended October 31, 2013 the President of the Company's U.S. subsidiary, and director of the Company, incurred $3,333 in travel and office expenses compared to $7,906 for the same period in 2012. At October 31, 2013 the President of the Company's US subsidiary owed the Company $4,742 for travel and other advances.

During the period ended October 31, 2013 the President and a director of the Company incurred $4,617 in travel and other expenses compared to $15,379 for the same period in 2012. At October 31, 2013 the Company owed the President $ nil for unreimbursed expenses.

During the period ended October 31, 2013, a director of the Company incurred $ 48,026 compared to $43,083 for the same period in 2012 in consulting fees and $1,623 in travel and related expenses compared to $101,335 for the same period in 2012. At October 31, 2013 the Company owed the director $ nil for consulting fees and related expenses.

During the period ended October 31, 2013, a director of the Company incurred $73,003 compared to $64,974 for the same period in 2012 in consulting fees and $1,656 in travel and office expenses compared to $3,091 for the same period in 2012. At October 31, 2013 the Company owed the director $ nil for consulting fees and related expenses.

During the year the Company charged a management fee of $294,775 (2012- $240,123) to Ale Anna Resources, of which $50,554 (2011-$41,181) was eliminated in consolidation. The Company has receivables from Ale Anna Resources of $ 73,737 for unpaid management fees and expenses.

The Company has a receivable from AleAnna Energy for expenses paid on behalf of AleAnna Energy in the amount of $103,576. Of this amount, $48,626 is for the account of the Company and $54,950 is for the account of the third party owning 51% of AleAnna Energy. The Company has receivables of $54,950 for the third party's share of such payments.

During 2012, the Company sold its remaining oil and gas properties located in the United States to a related party. The sale resulted in a loss of $201,049. As a result of this sale, the Company has a note receivable from the related party that bear interest at 1%. The note is due in January, 2014. As of October 31, 2013, the balance of the note receivable was $5,214.

During 2013 the Company entered into a financing arrangement with a shareholder for a principal amount of $1,000,000. The note provides, among other things, for the conversion of the note and accrued interest into stock of the Company.