BRS RESOURCES LTD.

DALLAS, TEXAS, USA

CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2014 and 2013

BRS Resources Ltd.

CONSOLIDATED FINANCIAL STATEMENTS

Three months ended January 31, 2014 and 2013

Responsibility for Financial Statements

The accompanying consolidated financial statements for BRS Resources, Ltd. have been prepared by management in accordance with International Accounting Standards (IAS) 34 “Interim Financial Reporting” consistently applied. The consolidated interim financial statements do not include all of the information required for full annual financial statements. The most significant of these accounting principles have been set out in the October 31, 2013 annual audited financial statements. These statements are presented on the accrual basis of accounting. Accordingly, a precise determination of many of the assets and liabilities is dependent upon future events. Therefore, estimates and approximations have been made using careful judgment. Recognizing that the Company is responsible for both the integrity and objectivity of the consolidated financial statements, management is satisfied that these consolidated financial statements have been fairly presented.

Auditors’ Involvement

The auditors of BRS Resources, Ltd. have not performed a review of the unaudited consolidated financial statements for the three months ended January 31, 2014 and 2013.

BRS Resources Ltd.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

		Period Ended January 31,	
		2014	2013
REVENUE			
Oil and gas	**$**	**-**	-
Management fee		**58,503**	49,362
		58,503	49,362
EXPENSES			
Wages and benefits		**172,894**	150,547
Engineering and consulting fees		**23,275**	50,890
Legal and accounting		**28,822**	46,988
Office and general		**46,887**	43,542
Rent		**22,577**	10,918
Investor relations		**18,582**	9,682
Depreciation and amortization		**4,090**	4,239
Travel		**5,691**	7,164
Non-productive drilling costs		**6,818**	134,456
Impairment expense		**-**	139,024
		329,636	597,450
LOSS BEFORE OTHER ITEMS AND INCOME TAXES		**(271,133)**	(548,088)
Change in fair value of derivative liability		**121,148**	92,207
Interest expense		**(112,533)**	-
Interest and other income		**9,951**	7,827
NET LOSS		**(252,567)**	(448,054)
Foreign currency translation gain (loss)		**(35,565)**	(152,609)
Comprehensive Loss	**$**	**(288,132)**	(600,663)
LOSS PER SHARE (basic and diluted)	**$**	**(0.01)**	$ (0.02)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING (basic and diluted)		**52,724,776**	52,724,776

See Accompanying Notes to Consolidated Financial Statements

BRS Resources Ltd.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		January 31, 2014	October 31, 2013
ASSETS			
Current:			
Cash	$	**269,283**	556,975
Accounts and other receivables		**14,104**	14,788
Notes receivable-current		**4,447**	5,214
Due from related parties		**290,244**	263,231
Prepaid expenses		**20,157**	4,603
Total Current Assets		**598,235**	844,811
Other restricted assets		**178,604**	167,514
Oilfield equipment inventory		**50,136**	50,136
Exploration and evaluation assets *[Notes 4 and 5]*		**5,587,941**	5,534,918
Property and equipment *[Note 6]*		**40,674**	44,764
Total Assets	$	**6,455,590**	6,642,143
LIABILITIES			
Current:			
Accounts payable and accrued expenses	$	**220,826**	146,710
Note payable-net of discount *[Note 7]*		**936,417**	856,403
Total Current Liabilities		**1,157,243**	1,003,113
Derivative liability *[Note 11]*		**199,788**	320,936
Lease inducement payable		**19,424**	21,957
Total Liabilities		**1,376,455**	1,346,006
SHAREHOLDERS' EQUITY			
Share capital *[Note 8]*		**30,495,447**	30,495,447
Contributed surplus *[Note 9]*		**2,890,187**	2,890,187
Deficit		**(28,441,979)**	(28,189,412)
Accumulated other comprehensive income		**135,480**	99,915
Total Shareholders' Equity		**5,079,135**	5,296,137
Total Liabilities & Shareholders' Equity	$	**6,455,590**	6,642,143

See Accompanying Notes to Consolidated Financial Statements

APPROVED ON BEHALF OF THE BOARD:

Steven Moore
President / CEO

Michael Noonan
CFO

BRS Resources Ltd.

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, 2012	52,724,776	30,495,447	-	2,782,320	(26,719,209)	248,972	6,807,530
Net loss for period	-	-	-	-	(448,054)	-	(448,054)
Foreign translation gain	-	-	-	-	-	(152,609)	(152,609)
Balance. January 31, 2013	52,724,776	30,495,447	-	2,782,320	(27,167,263)	96,363	6,206,867
Share based compensation	-	-	-	107,867	-	-	107,867
Net loss for period	-	-	-	-	(1,022,149)	-	(1,022,149)
Foreign translation loss	-	-	-	-	-	3,552	3,552
Balance, October 31, 2013	52,724,776	30,495,447	-	2,890,187	(28,189,412)	99,915	5,296,137
Net loss for period					(252,567)		(252,567)
Foreign translation loss						35,565	35,565
Balance, January 31, 2014	52,724,776	30,495,447	-	2,890,187	(28,441,979)	135,480	5,079,135

See Accompanying Notes to Consolidated Financial Statements

BRS Resources Ltd.

CONSOLIDATED STATEMENTS OF CASH FLOWS

		Period Ended January 31,	
		2014	2013
OPERATIONS			
Net loss	**$**	**(252,567)**	(448,054)
Add items not affecting cash:			
Amortization expense on discount of debt		**80,014**	-
Depreciation and amortization		**4,090**	4,239
Impairment expense		**-**	273,480
Other changes to exploration and evaluation assets		**(53,023)**	240,579
Fair value adjustment in derivative liability		**(121,148)**	(92,207)
		(342,634)	(21,963)
Change in non-cash working capital balances related to operations:			
Decrease (increase) in accounts and other receivables		**199,972**	143,403
(Increase) decrease in due from related parties		**(226,301)**	(90,657)
Decrease (increase) in oilfield equipment inventory		**-**	18,839
Decrease (increase) in prepaid expenses		**(15,554)**	5,461
Decrease (increase) in accounts payable and accrued expenses		**71,583**	(85,317)
Decrease in due to related parties		**-**	(12,329)
		(312,934)	(42,563)
INVESTING			
Petroleum and natural gas properties:			
Acquisition costs		**-**	(117,790)
Acquisition of equipment		**-**	(5,082)
Decrease (increase) in other restricted assets		**(11,090)**	-
Collection of notes receivable		**767**	2,057.00
		(10,323)	(120,815)
Effect of foreign exchange on cash balances		**35,565**	(152,637)
Increase in cash		**(287,692)**	(316,015)
Cash, beginning of period		**556,975**	544,177
CASH, end of period	**$**	**269,283**	$ 228,162

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 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 financial statements have been prepared assuming the Company will continue on a going-concern basis. The Company has incurred losses since inception and at January 31, 2013 has net working capital deficiency of $559,008 (working capital deficiency- October 31, 2013- $158,302). The ability of the Company to continue as a going-concern depends upon its ability to develop profitable operations and to continue to raise additional financing to fund its operations.

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

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

2. 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 January 31:

	January 31, 2014	October 31, 2013
Total assets	$ 6,076,879	$ 6,119,350
Total liabilities	76,900	55,404
Net loss	17,494	341,790
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.

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.

4. PROJECTS (continued)

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.

5. EXPLORATION AND EVALUATION ASSETS

		E&E Assets
Balance October 31, 2012	$	5,968,517
Exploration and evaluation expenditures		93,544
Non-productive drilling costs		(134,456)
Effect of current period operations and exchange rate flucuations		(211,822)
Other		(180,866)
Balance October 31, 2013		5,534,917
Effect of current period operations and exchange rate flucuations		(68,438)
Other		121,462
Balance January 31, 2014	$	5,587,941

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, 2012	$ -	$ -	$ -	$ 82,159	$ 82,159
Additions	-	-	-	5,040	5,040
Balance January 31, 2013	-	-	-	87,199	87,199
Additions	-	-	-	777	777
Balance October 31, 2013	-	-	-	87,976	87,976
Additions	-	-	-	-	-
Balance January 31, 2014	$ -	$ -	$ -	$ 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, 2012	$ -	$ -	$ -	$ 26,796	$ 26,796
Additions	-	-	-	4,197	4,197
Balance January 31, 2013	-	-	-	30,993	30,993
Additions	-	-	-	12,242	12,242
Other changes	-	-	-	(23)	(23)
Balance October 31, 2013	-	-	-	43,212	43,212
Additions	-	-	-	4,090	4,090
Balance January 31, 2014	$ -	$ -	$ -	$ 47,302	$ 47,302

Net Book Value	Proved Developed Producing Properties U.S.	Proved Undeveloped Properties Italy	Well Equipment	Office Equipment	Total
January 31, 2013	$ -	$ -	$ -	$ 56,206	$ 56,206
October 31, 2013	$ -	$ -	$ -	$ 44,764	$ 44,764
January 31, 2014	$ -	$ -	$ -	$ 40,674	$ 40,674

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 11. 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.

Subsequent to the quarter ended January 31, 2014, the Company repaid the principal and accrued interest of this senior secured convertible note.

8. SHARE CAPITAL

The Company has authorized unlimited number of common shares without par value. The following shares have been issued.

	January 31, 2014			October 31, 2013		
	Number		Amount	Number		Amount
Balance, beginning of period	52,725	$	30,495,447	52,725		30,495,447
Shares issued for cash	-		-	-		-
Warrants exercised	-		-	-		-
Balance, end of period	52,725	$	30,495,447	52,725	$	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
$0.40	505,400	-	505,400.00	-	-	December 1, 2013
$0.45	10,750,000	-	10,750,000.00	-	-	November 14, 2013
$0.30	1,500,000	-	-	-	1,500,000	November 4, 2014
Total	12,755,400	-	11,255,400	-	1,500,000	

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.

9. CONTRIBUTED SURPLUS

		January 31, 2014	October 31, 2013
Balance, beginning of period	$	2,890,187	2,782,320
Add-stock based compensation		-	107,867
Balance, end of period	$	2,890,187	2,890,187

10. STOCK BASED COMPENSATION

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

The maximum number of shares which may be issued pursuant to options granted under the plan shall be 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 January 31, 2014, 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 January 31, 2014 and October 31, 2013.

	January 31, 2014		October 31, 2013	
	Number	Price	Number	Amount
Balance, beginning of period	8,800,000	$0.25	6,130,000	$0.33
Options granted during period			3,000,000	$0.10
Options expired during period			(330,000)	$0.30
Balance, end of period	8,800,000	$0.25	8,800,000	$0.25

The intrinsic value of options exercisable at January 31, 2014 is nil.

10. STOCK BASED COMPENSATION (continued)

The following table summarizes the information about stock options outstanding and exercisable at January 31, 2014:

Weighted Average Exercise Price per Share	Number Outstanding October 31, 2013	Weighted Average Remaining Contract Life
$0.10	3,000,000	4.25
$0.25	70,000	2.36
$0.27	680,000	1.88
$0.30	1,555,000	2.83
$0.35	3,360,000	2.00
$0.50	135,000	1.08
	8,800,000	2.21

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

No options were granted during the period ended January 31, 2014. The amount of options exercisable at January 31, 2014 is 8,800,000 with a weighted average exercise price of $ 0.25.

11. 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 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.

11. DERIVATIVE LIABILITY (continued)

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:

	January 31, 2014	October 31, 2013
Market value of stock (1)	$0.08	$0.06
Risk-free interest rate (2)	0.999%	0.999%
Divident yield (3)	0.00%	0.00%
Volatility factor	114%	114%
Expected life (4)	.15 year	.41 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.

Subsequent to the quarter ended January 31, 2014, the Company repaid the principal and accrued interest of this senior secured convertible note.

12. 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.

13. CAPITAL MANAGEMENT

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

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

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

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

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.

15. COMMITMENTS AND CONTINGENCIES

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.

16. 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 January 31, 2014 and 2013.

		January 31,	
		2014	**2013**
Business segment revenue:			
Oil and gas-United States	$	**58,503**	49,362
Oil and gas-Italy		**-**	-
Total revenue	$	**58,503**	49,362
Business segment loss			
Oil and gas-United States	$	**174,101**	191,263
Oil and gas-Italy		**60,365**	340,915
General administration		**53,666**	68,485
Net loss	$	**288,132**	600,663
Depletion and depreciation			
Oil and gas-United States	$	**4,090**	4,065
Oil and gas-Italy		**-**	-
General administration		**-**	174
Total depletion, depreciation and amortization	$	**4,090**	4,239
Capital expenditures			
Oil and gas-United States	$	**-**	5,082
Oil and gas-Italy		**-**	117,790
General administration		**-**	-
Total capital expenditures	$	**-**	122,872
Business segment assets			
Oil and gas-United States	$	**409,519**	476,310
Oil and gas-Italy		**5,944,041**	5,865,534
General administration		**102,030**	25,394
Total assets	$	**6,455,590**	6,367,238

17. 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 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 January 31, 2014, the President of the Company's U.S. subsidiary, and director of the Company, incurred $1,517 in travel and office expenses on behalf of the Company compared to $nil for the same period in 2013. At January 31, 2014 the President to the Company's U.S. subsidiary owed the Company $6,988 for travel advances.

During the period ended January 31, 2014, the President and a director of the Company incurred $nil in travel expenses compared to $9,567 for the same period in 2013.

During the period ended January 31, 2014, a director of the Company incurred $nil compared to $16,037 for the same period in 2013 in consulting fees and $nil in travel expenses compared to $1,456 for the same period in 2013.

During the period ended January 31, 2014, a director of the Company incurred $10,000 compared to $25,792 for the same period in 2013 in consulting fees and $nil in travel and office expenses compared to $779 for the same period in 2013.

During the period ended January 31, 2014, the Company charged a management fee of $70,613 to Ale Anna Resources, of which $12,110 was eliminated in consolidation, compared to $60,000 for the same period in 2013. The Company has receivables from and unbilled charges to AleAnna Resources of $181,217 for unpaid management fees and expenses at January 31, 2014

During the period ended January 31, 2014, the Company paid costs for AleAnna Energy in the amount of $nil. The Company has a receivable of $110,428 from AleAnna Energy of which $56,319 is for the account of the third party owning 51% of AleAnna Energy.

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. Subsequent to the quarter ended January 31, 2014, the Company repaid the principal and accrued interest of this senior secured convertible note.

18. SUBSEQUENT EVENTS

On March 31, 2014, the Company completed a private placement (the "Private Placement") with Double Black Diamond L.P. (the "Lender"), a fund managed by Carlson Capital, L.P., consisting of the issuance of a convertible note (the "Note") in the aggregate principal amount of $2,126,825 (the "Loan"). The Loan bears interest at 13% per annum, compounded monthly, and is payable on maturity, being March 31, 2015. The principal amount of the Loan is convertible, at the option of the holder, into common shares of the Company (the "Conversion Shares") at a price of $0.06 per share (the "Conversion Price"), which Conversion Price will be subject to adjustment in accordance with the terms of the Note. Unpaid and accrued interest will be convertible, at the option of the holder, into common shares of the Company (the "Interest Shares") at the then current market price of the common shares of the Company on the TSX Venture Exchange at the time of settlement. The Loan is secured by all of the assets of the Company and its subsidiary, and the subsidiary has guaranteed the Loan. All obligations under the Loan are exchangeable into any new financing conducted by the Company prior to repayment of the Loan, and the Lender has a right to participate in any financings conducted by the Company until six months after repayment of the Loan. In addition, the Company has granted registration rights, whereby the Company would be obligated to file a prospectus with respect to the common shares issuable upon conversion of the Loan to facilitate a distribution of such shares if demanded by the Lender.

The Lender currently owns approximately 36% of the Company's issued and outstanding shares on an undiluted basis. If the Note is converted into the Company's common shares, the Lender will control an additional 35,447,083 shares, assuming a conversion price of $0.06 per Conversion Share, representing an aggregate of 62% of the Company's outstanding common shares on a partially diluted basis. The figures and percentages indicated above do not include any Interest Shares which may be issued to settle the interest payment due on conversion of the Note.

The Lender previously purchased $1,000,000 in convertible notes the ("Original Notes") which were due on March 28, 2014. A portion of the proceeds of the Loan ($1,126,825) were used to repay the Original Notes (and accrued interest thereon) and the balance will be used for general corporate purposes.