BONANZA RESOURCES CORPORATION

Consolidated Financial Statements

October 31, 2010
and
October 31, 2009

DeVISSER GRAY LLP
CHARTERED ACCOUNTANTS

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AUDITORS' REPORT

To the Shareholders of Bonanza Resources Corporation,

We have audited the consolidated balance sheets of Bonanza Resources Corporation as at October 31, 2010 and 2009 and the consolidated statements of operations, comprehensive loss and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at October 31, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with the Canadian generally accepted accounting principles.

"De Visser Gray LLP"

CHARTERED ACCOUNTANTS

Vancouver, British Columbia
February 17, 2011

BONANZA RESOURCES CORPORATION
Consolidated Balance Sheets
As at October 31,

	2010	2009
	$	$
ASSETS		
Current assets		
Cash	5,585	10,745
Amounts receivable	4,450	47,773
Prepaid expenses	3,921	20,216
	13,956	78,734
Equipment (note 5)	3,143	2,185
Deposit on acquisition (note 15)	157,280	-
Petroleum and natural gas interests (note 4 and schedule)	407,898	1,996,285
	582,277	2,077,204
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	186,200	169,511
Demand loans payable (note 9)	753,082	1,133,469
Interest payable on convertible debentures (note 10)	-	26,647
Due to related parties (note 6)	335,218	279,170
	1,274,500	1,608,797
SHAREHOLDERS' (DEFICIENCY) EQUITY		
Share capital (note 7(a))	18,049,724	17,612,271
Contributed surplus (note 7(e))	937,585	694,408
Deficit	(19,679,532)	(17,838,272)
	(692,223)	468,407
	582,277	2,077,204

Nature and continuance of operations (note 1)
Subsequent events (note 16)

Approved by the Board of Directors:

"Byron Coulthard" — Director

"Michael Noonan" — Director

See notes to the consolidated financial statements

BONANZA RESOURCES CORPORATION

Consolidated Statements of Operations, Comprehensive Loss and Deficit

For the Years Ended October 31,

	2010	2009
	$	$
Revenue		
Oil and gas	98,624	95,988
Sale of oil well	-	28,419
	98,624	124,407
Cost of goods sold		
Production costs	45,671	52,107
Depletion	38,543	38,083
Cost of well sold	-	49,184
	84,214	139,374
	14,410	(14,967)
Expenses		
Accounting and audit	19,750	21,500
Amortization	21,543	21,812
Consulting	172,388	263,260
Corporate relations	2,456	1,152
Financing and interest costs	50,657	117,398
Legal	42,016	66,580
Management fees	-	79,200
Office and miscellaneous	54,146	117,475
Stock-based compensation (note 7(b))	20,350	-
Travel and promotion	42,163	22,011
Trust and filing	35,967	33,005
Gains on foreign exchange	(6,958)	(48,266)
	454,478	695,127
Net loss for the year before other items	(440,068)	(710,094)
Other items:		
Write-down of petroleum and natural gas interest costs	(1,555,621)	(57,471)
Write-off of accounts payable	6,624	-
Forgiven related party debt (note 6)	93,648	-
Forgiven interest on demand loans payable	49,936	-
Write-off of demand loans payable	4,221	-
Net loss and comprehensive loss for the year	(1,841,260)	(767,565)
Deficit - beginning of year	(17,838,272)	(17,070,707)
Deficit - end of year	(19,679,532)	(17,838,272)
Basic and diluted loss per common share (note 8)	$ (0.36)	$ (0.21)
Weighted-average number of common shares outstanding	5,057,518	3,589,270

See notes to the consolidated financial statements

BONANZA RESOURCES CORPORATION
Consolidated Statements of Cash Flows
For the Years Ended October 31,

	2010	2009
Cash Provided by (Used for):	$	$
Operating Activities		
Net loss for the year	(1,841,260)	(767,565)
Adjustments for items not involving cash:		
Amortization	21,543	21,812
Depletion	38,543	38,083
Stock-based compensation expense	20,350	-
Shares issued for financing fee	-	18,000
Interest accrued on demand loans	50,657	99,398
Write-down of petroleum and natural gas interest costs	1,555,621	57,471
Write-off of accounts payable	(6,624)	-
Forgiven related party debt	(93,648)	-
Forgiven interest on demand loans payable	(49,936)	-
Write-off of demand loans payable	(4,221)	-
	(308,975)	(532,801)
Net changes in non-cash working capital components:		
Amounts receivable	14,904	15,330
Prepaid expenses	16,295	(7,526)
Accounts payable and accrued liabilities	23,313	143,111
Due to related parties	320,596	103,089
	66,133	(278,797)
Investing Activities		
Proceeds on sale of petroleum and natural gas interests	28,419	394,311
Petroleum and natural gas interest expenditures:		
Acquisition	(5,194)	(141,452)
Exploration	(21,458)	(65,099)
Equipment	(1,626)	-
Deposit	(157,280)	-
	(157,139)	187,760
Financing Activities*		
Repayment of demand loans	-	(30,643)
Demand loan proceeds	85,846	30,000
	85,846	(643)
Net cash used during the year	(5,160)	(91,680)
Cash - beginning of year	10,745	102,425
Cash - end of year	5,585	10,745

* ***Supplemental Disclosure of Non-Cash Investing and Financing Activities***

During the year ended October 31, 2010, the Company issued 13,205,602 units at $0.05 per unit to settle debt: $170,900 in due to related parties, $26,647 in convertible debenture interest and $462,733 in demand loans.

During the year ended October 31, 2009, the Company issued 500,000 common shares at $0.03 per share and 60,000 shares at $0.05 per share as a loan bonus.

See notes to the consolidated financial statements

BONANZA RESOURCES CORPORATION

Consolidated Schedule of Petroleum and Natural Gas Interest Costs

	October 31, 2008	Net additions	Write-down	October 31, 2009	Net additions	Write-down	October 31, 2010
	$	$	$	$	$	$	$
Lasley Project							
Acquisition	143,833	-	-	143,833	-	-	143,833
Exploration	658,024	44,928	-	702,952	583	-	703,535
Accumulated depletion	(485,387)	(40,540)	-	(525,927)	(38,543)	-	(564,470)
	316,470	4,388	-	320,858	(37,960)	-	282,898
XX Ranch Project							
Acquisition	26,385	-	(26,385)	-	-	-	-
Exploration	92,932	-	(92,932)	-	-	-	-
Accumulated depletion	(64,304)	2,457	61,847	-	-	-	-
	55,013	2,457	(57,470)	-	-	-	-
Spiller Project							
Acquisition	56,157	(35,391)	(20,766)	-	-	-	-
Accumulated depletion	(4,328)	4,328	-	-	-	-	-
	51,829	(31,063)	(20,766)	-	-	-	-
South Eastern Saskatchewan							
Acquisition	321,000	-	-	321,000	-	(321,000)	-
North Fork 3D Project							
Acquisition	1,192,210	162,217	-	1,354,427	5,194	(1,234,621)	125,000
Total petroleum and natural gas interests (note 4)	1,936,522	137,999	(78,236)	1,996,285	(32,766)	(1,555,621)	407,898

1. NATURE AND CONTINUANCE OF OPERATIONS

The Company was incorporated in the Province of British Columbia and its principal activity is the acquisition and exploration of resource properties.

The recoverability of amounts recorded as petroleum and natural gas assets is dependent upon the discovery of economically recoverable reserves. These financial statements have been prepared assuming the Company will continue on a going-concern basis. The Company has incurred losses since inception and at October 31, 2010 has a net working capital deficiency of $1,260,544 (2009 - $1,530,063). 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 eliminate its working capital deficiency.

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 on 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 balance sheets.

Management plans to continue to pursue equity and debit 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

Basis of Accounting

These consolidated financial statements have been prepared in accordance with generally accepted accounting principles ("GAAP") in Canada. Summarized below are those policies considered particularly significant to the Company.

Principles of Consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned U.S. subsidiary.

All significant intercompany transactions and balances have been eliminated on consolidation.

Use of Estimates

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

Foreign Currency Translation

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

Foreign exchange gains and losses from the translation of foreign operations are recognized in the current period.

Petroleum and Natural Gas Interests

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

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

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

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

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

Financial Instruments and Financial Risk

The Company’s financial instruments, at October 31, 2010, consist of cash, amounts receivable, accounts payable and accrued liabilities, demand loans payable, and due to related parties. Cash and amounts receivable have been classified as held for trading, the carrying values of which approximate their fair values due to their short term nature. Accounts payable and accrued liabilities, demand loans payable, and due to related parties are classified as other financial liabilities, measured at amortized cost using the effective interest rate method, however due to their short term nature, their carrying amounts approximate fair value.

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

Share Capital

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

Basis of Amortization

Equipment is recorded at cost less accumulated amortization. Assets are amortized on a declining-balance basis at an annual rate of 20% for office equipment and 30% for computer equipment, except in the year of acquisition when amortization is halved.

Stock-based Compensation

The Company records compensation associated with stock options granted using a fair value measurement basis and records the expense when the options vest with the recipients.

Consideration received on the exercise of stock options and warrants is recorded as share capital and the related contributed surplus, originally recognized when the options and warrants were granted, is transferred to share capital.

Asset Retirement Obligations

The fair value of a liability for an asset retirement obligation is recognized on an undiscounted cash flow basis when a reasonable estimate of the fair value of the obligation can be made. The asset retirement obligation is recorded as a liability with a corresponding increase to the carrying amount of the related long-lived asset. Subsequently, the asset retirement cost is allocated to expense using a systematic and rational method and is adjusted to reflect period-to-period changes in the liability resulting from the passage of time and from revisions to either expected payment dates or the amounts comprising the original estimate of the obligation. As at October 31, 2010, the Company does not have any material outstanding asset retirement obligations.

Impairment of Long-Lived Assets

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

Future Income Taxes

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

Convertible Debentures

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

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

3. **CHANGES IN ACCOUNTING POLICIES**

Adoption of New Accounting Standards

Financial Instruments - Disclosure and Presentation

In May 2009, the Canadian Institute of Chartered Accountants ("CICA") amended section 3862, Financial Instruments - Disclosure to include additional disclosure requirements about fair market value measurements for financial statements and liquidity risk disclosures. These amendments require a three-level hierarchy that reflects the significance of the inputs used in making the fair value measurements. Fair value of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than quoted prices for which all significant outputs are observable, either directly or indirectly. Level 3 valuations are based on inputs that are unobservable and significant to the overall fair value measurement. The Company has included disclosures recommended by sections 3862 and 3863 in Note 12 of these consolidated financial statements.

Goodwill and Intangible Assets

On November 1, 2009, the Company adopted CICA Handbook section 3074 Goodwill and Intangible Assets which replaced CICA Handbook section 3062 Goodwill and Other Intangible Assets as well as CICA Handbook section 3450 Research and Development. This new standard provides guidance on the recognition measurements, presentation and disclosure of goodwill and intangible assets.

Adoption of this new standard did not have a material impact on the Company's consolidated financial statements and disclosures.

Future Accounting Changes
CICA Sections 1582, 1601, 1602 Business Combinations, Consolidations and Non-controlling Interest

In January 2009, the Canadian Accounting Standards Board ("AcSB") issued the following Handbook sections: 1582 - Business Combinations - Consolidations, and 1602 - Non-controlling Interest. These new sections will be applicable to financial statements relating to the Company's interim and fiscal year end beginning on or after November 1, 2011. Early adoption is permitted. The Company does not expect that there will be any material impact upon its adoption of these new sections on its consolidated financial statements.

International Financial Reporting Standards ("IFRS")

In February 2008 the AcSB announced 2011 as the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The specific implementation is set for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of November 1, 2011 will require restatement for comparative purposes of amounts reported by the Company for the year ended October 31, 2011. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

4. PETROLEUM AND NATURAL GAS INTERESTS

Lasley Project
Caddo County
Oklahoma, USA

The Company owns a 10% working interest and a net revenue interest ("NRI") of not less than 7.5%, acquired in consideration for payments totalling US$148,500 and the Company funding its pro-rata share of the costs of drilling two initial test wells. The Company is to also pay its pro-rata share of the cost of acquiring additional acreage in an area of mutual interest ("AMI") (as defined in the agreement) by the project's operator, Western Oil & Gas Development Corp. ("Western") of Oklahoma City, Oklahoma, to a maximum of US$60,000 and will receive a NRI of at least 7.5% of any additional working interests so acquired. Western also retains a 20% working interest back-in right, after payout to all other partners of 100% of their production, acquisition, acreage, drilling, completion and operating costs within the AMI.

XX Ranch Project
Coleman County
Texas, USA

The Company formerly owned a 10% working interest (8% NRI) in oil and gas leases acquired in consideration for payments totalling US$10,405 and the Company funding its pro-rata share of drilling well #I-34. The project's operator, Corinthian Energy Corporation of Abilene, Texas ("Corinthian") was to retain a 25% back-in right after payout of all costs and expenses of the project, in which case the Company's working interest would become 7.5% (6% NRI). The Company was to pay its pro-rata share of additional costs of subsequent wells on the leases or relinquish its interest in any undeveloped leasehold acreage. The Company wrote off all associated costs with the project during the comparative year.

Spiller Project
Robertson County
Texas, USA

The Company formerly owned a 50% working interest acquired in consideration for payments totalling US$25,000. During fiscal 2006, the Company reached an agreement with Burlington Resources Oil & Gas Company LP ("Burlington"), whereby Burlington was to drill and complete a well (completed) on the acreage and receive the 50% working interest with the Company retaining a 2.205% overriding royalty interest on the project. The Company sold this interest October 1, 2009 for US$26,500.

South Eastern Saskatchewan Project
Saskatchewan, Canada

The Company entered into a Working Interest Participation Purchase Agreement during fiscal 2007 to acquire a working interest in leasehold mineral rights in South Eastern Saskatchewan upon drilling of a 2600 metre exploration well (completed). The Company was to earn a 16% working interest which would be converted into a 10% working interest upon payout of an exploration well and of the farmor's royalty rights. Consideration for the initial interest was $300,000 cash (paid during fiscal 2007). The Company wrote off all associated costs with the project during the current year.

4. **PETROLEUM AND NATURAL GAS INTERESTS** *(continued)*

North Fork 3D Project
Beaver County
Oklahoma, **USA**

The Company entered into a purchase agreement with Ryan Petroleum, LLC and Radiant Energy, LC (the "sellers") during fiscal 2008 to purchase 85% of 8,555 acres (reduced to 5,600 acres during the comparative year and to 104 acres during the current year) for the sum of US$510,000 plus US$60,000 (both paid) for the acquisition of additional acreage, seismic permits, seismic acquisition, processing and interpretation. These leases will be assigned at a 78.5% net revenue interest. Bonanza is to pay 100% of additionally acquired acreage prior to the spud of the initial well. Additional acquired acreage will be split 85% to Bonanza and 15% to the sellers and the sellers will retain an overriding royalty equal to the difference between the actual lease burdens and 21.5%. Costs of initial and subsequent wells drilled will be borne on an 85% Bonanza/15% sellers basis.

The Company entered into a letter agreement, definitive agreement and amendments with Morgan Creek Energy Corp. ("Morgan") during the current and comparative years, whereby Morgan could earn 60% of the Company's 85% interest (or 51% overall) in exchange for a non-refundable deposit of US$115,000 (received) and incurring US$2.4 million in exploration and drilling expenditures within a year. The Company was subsequently informed by the operator certain leases had expired during the current year and the Morgan agreements were amended November 30, 2009. Under amended terms Morgan can earn 70% of the Company's 85% interest (or 59.5% overall) by incurring the cost of drilling and completing one well or a second should the first be a dry hole. One well was drilled during the current year and abandoned as a dry hole. The Company wrote down associated costs to $125,000 during the current year.

5. **EQUIPMENT**

	2010			2009
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
	$	$	$	$
Computer	4,795	4,093	702	1,003
Office	3,605	1,164	2,441	1,182
	8,400	5,257	3,143	2,185

6. **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 year ended October 31, 2010, the Company incurred $nil (2009 - $79,200) in management fees, $26,655 (2009 - $124,454) in consulting fees and $34,321 (2009 - $nil) in travel and promotion expenses to its President. During the current year the President received 3,418,000 units at $0.05 per unit to settle $170,900 in debt and forgave $93,648 in prior debt. The Company owed the President and his private company $141,275 at October 31, 2010 (2009 - $279,170) for fees, expenses and advances.

During the year ended October 31, 2010, the former President of the Company's US subsidiary, and former director of the Company, incurred $2,597 (2009 - $131,240) in consulting fees and $2,675 (2009 - $54,013) in travel and office expenses.

6. **RELATED PARTY TRANSACTIONS** *(continued)*

During the year ended October 31, 2010 the current President of the Company's US subsidiary, and director of the Company, incurred $62,332 in consulting fees and was owed $127,593 at October 31, 2010 for fees and advances.

During the year ended October 31, 2010, a director of the Company's US subsidiary incurred $62,332 in consulting fees and was owed $66,608 for fees and advances.

A public company with the same President as the Company owed $258 (2009 - $nil) for expense reimbursements at October 31, 2010.

7. **SHARE CAPITAL**

a) Issued and outstanding

Authorized share capital of the Company consists of 100,000,000 common shares without par value.

	2010		2009	
	Number of Shares	$	Number of Shares	$
Opening balance	38,763,936	17,612,271	29,793,936	16,729,926
Issued for:				
Private placement	-	-	8,410,000 [(1)]	864,345
Loan bonus	-	-	560,000	18,000
Debt settlement	13,205,602 [(2)]	444,953	-	-
Escrow cancellation	(83,333)	(7,500)	-	-
Consolidation 10:1	(46,697,583)	-	-	-
Ending balance	5,188,622	18,049,724	38,763,936	17,612,271

(1) Net of issue costs of $87,697 and including 710,000 finder's fee units at $0.12 per unit.

(2) Net of fair value of warrants issued of $215,327.

b) Stock-based compensation

The fair value of warrants granted during the current year was estimated using the Black-Scholes Option Pricing Model with the following assumptions: risk-free interest rate 1.2%; expected dividend yield - nil; expected stock price volatility 147.4%; expected warrant life of 2 years. The fair value of warrants granted was $0.022 per warrant.

The fair value of options granted during the current year was estimated using the Black-Scholes Option Pricing Model with the following assumptions: risk-free interest rate 2.6%; expected dividend yield - nil; expected stock price volatility 108.5%; expected option life of 5 years. The fair value of options granted was $0.022 per option

7. **SHARE CAPITAL** *(continued)*

c) The continuity of share purchase options is as follows:

	2010		2009	
	Number of Shares	Weighted Price	Number of Shares	Weighted Price
Opening balance	295,000	2.40	320,000	2.00
Granted during the year	235,000	0.50	-	-
Exercised/cancelled during the year	(175,000)	0.93	(25,000)	1.70
Closing balance	355,000	1.88	295,000	2.40
Weighted remaining life in years		2.13		2.12
Range of exercise prices		0.50-4.00		1.50-4.00

d) The continuity of share purchase warrants is as follows:

	2010		2009	
	Number of Shares	Weighted Price	Number of Shares	Weighted Price
Opening balance	1,485,670	2.00	969,670	2.00
Granted during the year	978,760	1.00	841,000	2.00
Expired during the year	(644,670)	2.00	(325,000)	2.00
Closing balance	1,819,760	1.46	1,485,670	2.00
Weighted remaining life in years		0.72		0.90
Range of exercise prices		1.00-2.00		1.50-2.00

e) Contributed surplus increased by $243,177 during the current year, comprising escrow shares cancellation of $7,500, stock-based compensation expense of $20,350 for stock options granted and share issue costs of $215,327 for debt settlement warrants granted.

Refer to note 16.

8. **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.

9. **DEMAND LOANS PAYABLE**

At October 31, 2010, the loan balance of $753,082 (2009 - $1,133,469) was due to unrelated parties and was inclusive of accrued interest of $47,135 (2009 - $217,469).

Refer to note 16.

10. CONVERTIBLE DEBENTURES

The Company issued convertible debentures for $330,000 in 2003, including $305,000 to related parties and $25,000 to unrelated parties. During 2006, the remaining debentures were converted into Company common shares, with 363,636 shares issued at $0.275 per share for $100,000 in principal and 181,818 shares at $0.33 per share for $60,000 in principal.

During the current year the outstanding balance of $26,647 (representing accrued interest) was repaid with 532,940 units at $0.05 per unit.

11. INCOME TAXES

A reconciliation of expected and actual income tax expense at statutory rates is as follows:

	2010 $	2009 $
Net loss for the year	(1,841,260)	(767,565)
Expected income tax recovery	(664,893)	(271,869)
Net adjustment for deductible and non-deductible amounts	594,140	1,938
Unrecognized benefit of tax pools carried forward	70,753	269,931
Income tax expense or recovery	-	-

The Company has aggregate potential future income tax assets as follows:

	2010 $	2009 $
Non-capital and capital loss carry-forwards	4,865,440	4,775,291
Share issue costs and other	140,090	175,965
Net exploration tax pools in excess of asset carrying amounts	2,797,778	1,399,332
Total	7,803,308	6,350,588
Expected statutory rates	29.38%	28.66%
Potential future income tax assets	2,292,403	1,820,079
Valuation allowance	(2,292,403)	(1,820,079)
Future income tax assets	-	-

As at October 31, 2010, the Company has non-capital losses available for deduction against future year's taxable incomes amounting to $4,555,000 (2009 - $4,334,000). The Company has not recognized any future benefit for these tax losses and resource deductions, as it is not considered likely that they will be utilized. If unused, these losses will expire as follows:

2010	296,000
2011	654,000
2012	443,000
2026	922,000
2027	472,000
2028	589,000
2029	718,000
2030	461,000
	4,555,000

12. FINANCIAL INSTRUMENT RISKS

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

Credit Risk

The Company's primary exposure to credit risk is the risk of illiquidity of cash, amounting to $5,585 at October 31, 2010. As the Company's policy is to limit cash holdings to instruments issued by major Canadian banks, or investments of equivalent or better quality, the credit risk is considered by management to be negligible.

Amounts receivable at October 31, 2010, included $3,756 due from the Canadian Government for HST.

Liquidity Risk

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

Foreign Exchange Risk

The Company has foreign exchange risk due to activities carried out in the United States.

At October 31, 2010 the Company had CAD$3,324 in current assets and CAD$297,057 in current liabilities originating in the US.

Interest Rate Risk

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

Fair Value of Financial Instruments

The fair value classification of the Company's financial instruments as at October 31, 2010 and 2009 are as follows:

	Fair Value Level	2010	2009
		Held-for-trading	Held-for-trading
Financial assets:			
Cash	1	$5,585	$10,745
Accounts receivable	1	$4,450	$47,773
		$10,035	$58,518

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. **GEOGRAPHICAL SEGMENT**

The Company at October 31, 2010 had assets of $551,398 (2009 - $1,743,656) in the US.

15. **DEPOSIT ON ACQUISITION**

The Company paid $157,280 (US$150,000) during the current year as a non-refundable deposit pursuant to a July 7, 2010 Letter of Intent with AleAnna Energy, LLC ("AE"), a Delaware limited liability company with an office in Dallas, Texas, to acquire all of AE's interests in AleAnna Resources, LLC ("AR"), a Delaware limited liability company headquartered in San Antonio, Texas. AE's sole asset is a 15% membership interest in AR, which is represented to hold several licenses to explore for oil and gas in the country of Italy.

On November 3, 2010, the Company entered into Membership Interest Purchase Agreements ("MIPs") with four persons and a limited liability company that collectively owned 100% of the membership interests in AE. Pursuant to these MIPs, the Company would purchase 100% of the membership interests in AE for US$5,500,000. On the same day the Company agreed to acquire only a 49% interest in AE for US$1,984,000 which amount was paid by the issue of a promissory note bearing interest at 10%. This note, plus interest, was paid off in December of 2010.

16. **SUBSEQUENT EVENTS**

In addition to items mentioned elsewhere in the notes, the following events occurred subsequent to October 31, 2010:

a) The Company issued a private placement of 25 million units at $0.25 per unit, each unit comprised of one common share of the Company and one-half warrant (each warrant exercisable into one share at $0.40 until December 1, 2012 - subject to the requirement to exercise, upon the Company giving notice, should the Company's shares trade above $0.50 per share over a consecutive 20 day period). Finders' fees of $257,750 in cash, 678,200 units (with the same terms as units above), 339,100 finders' fee warrants (with the same terms as the unit warrants) and 1,684,400 broker warrants (each warrant exercisable into one share at $0.30 until December 1, 2012 - subject to the same, requirement to exercise) were paid and issued.

b) The Company issued 1,010,800 shares at $0.25 per share plus 505,400 warrants, each exercisable into one share for $0.40 over two years, to satisfy $252,700 in demand loans payable. The remainder of the demand loans payable balance, $500,382, was paid in cash.

c) The Company granted stock options to purchase 680,000 Company shares at $0.27 for two years and options to purchase 3,360,000 shares at $0.35 for five years.

d) In February 2011, the Company announced Steven Moore as its newly elected President and Chief Executive Officer. Outgoing President and CEO Byron Coulthard continues to serve as Chairman of the Board of the Company.

e) In February 2011, the Company announced Sioux Sinnott as Director of the Company and as President of Bonanza Resources (Texas) Inc., a wholly owned subsidiary of BRS Resources Ltd.

f) The Company changed its name to BRS Resources Ltd.

Also refer to note 15.