BRS RESOURCES LTD.

DALLAS, TEXAS, USA

CONSOLIDATED FINANCIAL STATEMENTS

July 31, 2014 and 2013

BRS Resources Ltd.

CONSOLIDATED FINANCIAL STATEMENTS

Three and nine months ended July 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 and nine months ended July 31, 2014 and 2013.

BRS Resources Ltd.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

	3 Months Ended July 31,		9 Months Ended July 31,	
	2014	**2013**	**2014**	**2013**
REVENUE				
Management fee	$ **59,148**	92,178	$ **178,069**	192,135
	59,148	92,178	**178,069**	192,135
EXPENSES				
Wages and benefits	**151,797**	157,817	**479,548**	436,129
Stock based compensation	**-**	107,867	**-**	107,867
Engineering and consulting fees	**101,283**	31,321	**170,615**	141,043
Legal and accounting	**93,803**	46,449	**199,546**	251,615
Office and general	**22,334**	39,116	**117,119**	132,614
Rent	**22,547**	20,851	**66,462**	51,862
Investor relations	**27,393**	13,541	**69,892**	49,233
Depreciation and amortization	**4,040**	4,059	**12,087**	12,254
Regulatory fees	**-**	6,090	**19,078**	19,526
Travel	**6,093**	6,086	**14,184**	18,063
Non-productive drilling costs	**-**	-	**6,930**	-
Impairment expense	**-**	-	**-**	273,480
	429,290	433,197	**1,155,461**	1,493,686
LOSS BEFORE OTHER ITEMS AND INCOME TAXES	**(370,142)**	(341,019)	**(977,392)**	(1,301,551)
Change in fair value of derivative liability	**106,177**	-	**454,029**	144,259
Interest expense	**(389,272)**	(30,708)	**(713,432)**	(42,031)
Interest and other income	**5,482**	7,253	**25,240**	21,122
NET LOSS	**(647,755)**	(364,474)	**(1,211,555)**	(1,178,201)
Foreign currency translation gain (loss)	**(6,282)**	5,889	**6,179**	(148,870)
Comprehensive Loss	$ **(654,037)**	$ (358,585)	$ **(1,205,376)**	$ (1,327,071)
LOSS PER SHARE (basic and diluted)	$ **(0.01)**	$ (0.01)	$ **(0.02)**	$ (0.02)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING (basic and diluted)	**52,724,776**	**52,724,776**	52,724,776	**52,724,776**

See Accompanying Notes to Consolidated Financial Statements

BRS Resources Ltd.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		July 31, 2014 (Unaudited)	October 31, 2013 (Audited)
ASSETS			
Current:			
Cash	$	**523,992**	556,975
Accounts and other receivables		**13,760**	14,788
Notes receivable-current		**-**	5,214
Due from related parties		**298,908**	263,231
Prepaid expenses		**19,834**	4,603
Total Current Assets		**856,494**	844,811
Other restricted assets		**174,947**	167,514
Oilfield equipment inventory		**50,136**	50,136
Exploration and evaluation assets *[Notes 4 and 5]*		**5,652,232**	5,534,918
Property and equipment *[Note 6]*		**32,678**	44,764
Total Assets	$	**6,766,487**	6,642,143
LIABILITIES			
Current:			
Accounts payable and accrued expenses	$	**234,200**	146,710
Due to related parties		**10,890**	-
Note payable-net of discount *[Note 7]*		**1,285,194**	856,403
Total Current Liabilities		**1,530,284**	1,003,113
Derivative liability *[Note 11]*		**1,131,085**	320,936
Lease inducement payable		**14,357**	21,957
Total Liabilities		**2,675,726**	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		**(29,400,967)**	(28,189,412)
Accumulated other comprehensive income		**106,094**	99,915
Total Shareholders' Equity		**4,090,761**	5,296,137
Total Liabilities & Shareholders' Equity	$	**6,766,487**	6,642,143

See Accompanying Notes to Consolidated Financial Statements

APPROVED ON BEHALF OF THE BOARD:

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

BRS Resources Ltd.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Number of Common Shares	Share Capital	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	-	-	-	(1,178,201)	-	(1,178,201)
Balance. July 31, 2013	52,724,776	30,495,447	2,782,320	(27,897,410)	248,972	5,629,329
Share based compensation	-	-	107,867	-	-	107,867
Net loss for period	-	-	-	(292,002)	-	(292,002)
Foreign translation loss	-	-	-	-	(149,057)	(149,057)
Balance, October 31, 2013	52,724,776	30,495,447	2,890,187	(28,189,412)	99,915	5,296,137
Net loss for period	-	-	-	(1,211,555)	-	(1,211,555)
Foreign translation gain	-	-	-	-	6,179	6,179
Balance, July 31, 2014	52,724,776	30,495,447	2,890,187	(29,400,967)	106,094	4,090,761

See Accompanying Notes to Consolidated Financial Statements

BRS Resources Ltd.

CONSOLIDATED STATEMENTS OF CASH FLOWS

		3 Months Ended July 31,			9 Months Ended July 31,	
		2014	**2013**		**2014**	**2013**
OPERATIONS						
Net income (loss)	$	**(647,755)**	(364,474)	$	**(1,211,555)**	(1,178,201)
Add items not affecting cash:						
Stock based compensation		**-**	107,867		**-**	107,867
Amortization of debt discount		**318,642**	-		**566,144**	-
Fair value of derivative liability		**(106,177)**	-		**(454,029)**	(144,259)
Depletion, depreciation and amortization		**4,040**	4,059		**12,087**	12,254
Impairment expense		**-**	-		**-**	273,480
Other changes to exploration and evaluation assets		**88,323**	(39,997)		**34,963**	356,357
		(342,927)	(292,545)		**(1,052,390)**	(572,502)
Change in non-cash working capital balances related to operations:						
(Increase) decrease in accounts and other receivables		**(1,049)**	(13,627)		**1,028**	137,893
(Increase) decrease in due from related parties		**7,439**	(47,348)		**(35,677)**	(127,955)
Decrease in oilfield equipment inventory		**-**	-		**-**	18,839
(Increase) decrease in prepaid and other assets		**(4,914)**	4,214		**(15,231)**	23,164
Increase (decrease) in accounts payable and accrued expenses		**45,623**	(58,346)		**206,714**	(43,062)
Increase (decrease) in due to related parties		**10,890**	(4,928)		**10,890**	(13,340)
		(284,938)	(412,580)		**(884,666)**	(576,963)
FINANCING						
Issuance of current notes payable		**-**	-		**1,000,000**	1,000,000
		-	-		**1,000,000**	1,000,000
INVESTING						
Petroleum and natural gas properties:						
Acquisition costs		**(96,492)**	-		**(152,277)**	(145,714)
Acquisition of equipment		**-**	(1,262.00)		**-**	(5,817)
(Increase) decrease in other restricted assets		**1,064**	34,817.00		**(7,433)**	33,268.00
Collection of notes and other		**2,191**	814		**5,214**	5,736
		(93,237)	34,369		**(154,496)**	(112,527)
Effect of foreign exchange on cash balances		**(6,282)**	5,889		**6,179**	(148,870)
Increase (decrease) in cash		**(384,457)**	(372,322)		**(32,983)**	161,640
Cash, beginning of period		**908,449**	1,078,139		**556,975**	544,177
CASH, end of period	$	**523,992**	705,817	$	**523,992**	705,817

During the period ended July 31,2014, $126,825 of accrued interest wass rolled into principal in connection with the refinancing of the Company's convertible note.

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 July 31, 2014 has working capital deficiency of $673,789 (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 July 31:

		July 31, 2014	October 31, 2013
Total assets	$	6,102,023	6,119,350
Total liabilities		75,747	55,404
Net loss		176,495	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 July 31, 2014 or 2013.

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 July 31, 2014, the Company had $548,773 in current assets and $163,001 in current liabilities originating in the United States (October 31, 2013 - $504,597 and $72,400), 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 four “Applications for Exploration Permits”, encompassing more than 800,000 acres (3,250 sq. km) that have been approved by the Italian Ministry of Economic Development (General Directorate for Energy and Mining Resources, National Mining Office for Hydrocarbons and Geothermics) (the “Ministry”). Nine of the exploration permit applications, totalling 670,396 acres, are located in the Po Valley in northern Italy, and four exploration permit applications, totalling 132,483 acres, are located in the Bradano Basin in southern Italy.

To date AleAnna Resources has acquired more than 86,000 acres (350 sq. km) of 3-D geophysical data, making it Italy’s largest owner of on-shore 3-D geophysical data in Italy. Part of AleAnna Resources’ operating strategy is the use of high-resolution 3D seismic technologies to image subsurface hydrocarbons to more efficiently high-grade prospects while reducing environmental impact and risk.

Corte Dei Signori Permit
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 2009, AleAnna Resources completed a 32,864 acre (133 sq. km) 3-D geophysical survey in the Corte Dei Signori permit area and has reprocessed the data several times using the latest in geophysical processing applications.

In 2013, AleAnna Resources executed a participation agreement with Andiamo Resources, LLC on a 3,953-acre (16 km^2) area of mutual interest (AMI) within the Corte dei Signori permit where the Trava-2 well will be drilled. As part of the agreement, Andiamo paid cash consideration and will pay 100% of the costs to drill the Trava-2 well to casing point election. In return Andiamo will earn a 50% interest in the AMI portion of the Corte dei Signori permit. AleAnna Resources and Andiamo technical teams have selected the surface location for the well, the bottom-hole well coordinates, and the wellbore-drilling plan. AleAnna Resources will select a drilling contractor and various sub-contractors in the coming months. AleAnna Resources will commence drilling the Trava-2 when the Italian government processes and approves AleAnna Resources' drilling permit application.

In 2014, AleAnna Resources filed for a three-year extension on the Corte dei Signori permit after completing its initial work program, which included the 3-D geophysical survey and the drilling of the Gallare-6 well. In addition to the extension, AleAnna Resources has applied for a drilling permit for its Trava-2 exploration well.

La Prospera Permit and Gradizza-1 Exploration Well
The La Prospera exploration permit area is located northwest of Corte dei Signori in the Ferrara province north of Bologna. Through a farm-in agreement with Po Valley Energy (PVE), AleAnna Resources holds a 10% interest in the La Prospera permit and PVE's Gradizza-1 exploration well, which was drilled, tested, and completed in the fall of 2013. The Gradizza-1 well encountered 33 feet (10 m) of gas-bearing sand. The well tested natural gas at a stabilized rate of approximately 700,000 cubic feet per day, with 500-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 approximately 1,200 psi.

The well is currently shut-in, waiting on the installation of surface facilities, pipeline hookup, and regulatory approvals. PVE applied for a production permit in early 2014 and will begin producing the well upon approval of its PVE's production permit application.

AleAnna Resources and its joint-venture partners in the La Prospera permit have also applied for the Zanza exploration permit, a relatively small tract abutting La Prospera's southern border just south of the Graddizza-1 well and adjacent to and east of AleAnna Resources’ Ponte del Diavolo permit. It is possible that the geological structure penetrated by the Gradizza-1 well may extend onto the Zanza area.

4. PROJECTS (continued)

Ponte Del Diavalo Permit
The Ponte Del Diavolo permit area, located northwest of Corte dei Signori and adjacent to La Prospera and Zanza, covers an area of over 49,000 acres (200 sq. km). The Ponte Del Diavolo permit is on trend with several large, producing gas fields, making it an attractive area to explore for hydrocarbons. In 2011, the company commissioned a 35,000 acre (140 sq. km) high-resolution 3-D geophysical survey of the permit area, which further defined existing hydrocarbon traps in the Plio-Pleistocene and deeper sands.

An ancillary benefit of participating in PVE's Gradizza-1 well is that the well serves as a stratigraphy test-well for AleAnna Resources' look-alike prospects located a few miles southwest of the well. Using data gleaned from Gradiia-1, AleAnna Resources can more accurately interpret and target similar-looking pay horizons in its 100%-owned prospects. AleAnna Resources has surveyed each of its prospects using 3-D seismic technology, greatly enhancing the company's ability to image geological structures and anomalies. These prospects, as well as the Gradizza-1 well, are on trend with several nearby producing natural gas fields, including the Sabbioncello and Tresigallo fields, which have produced more than 90 billion cubic feet (Bcf) and 68 Bcf of natural gas, respectively, to date.

In 2013 AleAnna Resources submitted a drilling permit application for its Tombellina prospect, located approximately 3.5 miles (5.6 km) southwest of the Gradizza-1 discovery well. As with the Trava-2 well, AleAnna Resources will commence drilling the well upon approval of its drilling permit application.

Ponte Dei Grilli Permit
The 63,864 acre (258 sq. km) Ponte dei Grille permit is one of AleAnna Resources most promising areas for the discovery of substantial natural gas reserves. In 2012, AleAnna Resources acquired more than 18,000 acres (74 sp. km) of high-resolution 3-D seismic data from the permit area. Although there has been no production on the Ponte dei Grille permit, a number of large natural gas fields surround it. Northeast of Ponte dei Grilli are the Cotignola and San Potito gas fields, which have produced 52 Bcf and 46 Bcf of natural gas, respectively.

AleAnna Resources has identified several large geological anomalies, including the Armonia prospect, and at least four others in the western portion of the permit where the 3D seismic was acquired and interpretation is continuing. AleAnna Resources has filed a drilling application for its Armonia prospect. The application includes a detailed environmental impact report as well as engineering and geological data. Due to strong, positive indicators from the first Ponte dei Grille geophysical survey, AleAnna Resources is applying for a second 3-D geophysical survey on the southeast section of the Ponte dei Grilli permit, also on trend with the prospects and fields mentioned above.

Other Po Valley Permits and Permit Applications
Belgioioso, Fantozza, Bugia, and Molino are AleAnna's four additional approved permit areas in the Po Valley. All four permits—Fantozza and Bugia in the central Po Valley and Belgioioso and Molino in the western end of the Po Valley—are on trend with large gas fields. AleAnna Resources has submitted an application for 3-D geophysical surveys on Fantozza and has recently received approval for the Belgioioso survey. AleAnna Resources is also preparing an application for a 3D geophysical survey on Bugia.

Le Saline and Tre Ponti are two additional areas where AleAnna Resources has applied for exploration permits. Both areas are large tracts in the eastern Po Valley that appear to have significant potential, but do not factor into AleAnna Resources' near-term plans due to environmental restrictions.

Bradano Basin
In southern Italy's Bradano Basin, AleAnna Resources holds one exploration permit (Torrente Acqua Fredda) and has applied for an additional exploration permit (Palazzo San Gervasio). Both areas are in the Basilicata region, home to several of the largest oil discoveries onshore western Europe, including the Tempa Rossa field, which has the production potential to reach 50,000 barrels of oil per day. The 16,300 acre (66 sp. km) Torrente Acqua Fredda permit is surrounded by a number of existing oil and gas fields. The much larger 116,100-acre (470-km^2) Palazzo San Gervasio permit application is also on trend with several oil and gas fields. To date, AleAnna Resources has done preliminary geological and geophysical studies on the area, but has yet to commit significant resources to these holdings.

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
Exploration and evaluation expenditures		152,277
Effect of current period operations and exchange rate flucuations		(34,962)
Balance July 31, 2014	$	5,652,232

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	-	-	-	5,817	5,817
Balance July 31, 2013	-	-	-	87,976	87,976
Additions	-	-	-		-
Balance October 31, 2013	-	-	-	87,976	87,976
Additions	-	-	-	-	-
Balance July 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	-	-	-	12,254	12,254
Balance July 31, 2013	-	-	-	39,050	39,050
Additions	-	-	-	4,185	4,185
Other changes	-	-	-	(23)	(23)
Balance October 31, 2013	-	-	-	43,212	43,212
Additions	-	-	-	12,087	12,087
Balance July 31, 2014	$ -	$ -	$ -	$ 55,299	$ 55,299

Net Book Value	Proved Developed Producing Properties U.S.	Proved Undeveloped Properties Italy	Well Equipment	Office Equipment	Total
July 31, 2013	$ -	$ -	$ -	$ 48,926	$ 48,926
October 31, 2013	$ -	$ -	$ -	$ 44,764	$ 44,764
July 31, 2014	$ -	$ -	$ -	$ 32,677	$ 32,677

7. NOTE PAYABLE

On March 28, 2014, the Company entered into a Senior Secured Convertible Note for interim financing to fund exploration requirements in Italy, refinance the existing note plus accrued interest of $126,825, and to fund other general corporate requirements. The loan is for $2,126,825, provides for interest accruing at the rate of 13% per annum compounded monthly, and is due March 31, 2015. In conjunction with the issuance of the debt, a discount was recognized for the value of the derivative at Note 12. As of July 31, 2014 the remaining discount is $841,631.

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 $0.06 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 July 31, 2014, $93,671 of accrued interest in connection with the note is included in accounts payable and accrued expenses in the statement of consolidated financial position.

8. SHARE CAPITAL

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

	July 31, 2014			October 31, 2013		
	Number		Amount	Number		Amount
Balance, beginning of period	52,724,776	$	30,495,447	52,724,776		30,495,447
Shares issued for cash	-		-	-		-
Warrants exercised	-		-	-		-
Balance, end of period	52,724,776	$	30,495,447	52,724,776	$	30,495,447

Warrants - The Company has issued stock warrants as follows:

Exercise Price	Outstanding October 31 2013	Additions	Exercised or Expired	Cancelled	Outstanding July 31, 2014	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 which expired November 2013, subject to a right of call by the Company under certain conditions.

9. CONTRIBUTED SURPLUS

		July 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 July 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 1.69 years.

The following is a summary of the change in the Company's stock option plan for the period ended July 31, 2014 and October 31, 2013.

	July 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 July 31, 2014 is nil.

10. STOCK BASED COMPENSATION *continued*

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

Weighted Average Exercise Price per Share	Number Outstanding April 30, 2014	Weighted Average Remaining Contract Life
$0.10	3,000,000	3.75
$0.25	70,000	1.86
$0.27	680,000	1.38
$0.30	1,555,000	2.33
$0.35	3,360,000	1.50
$0.50	135,000	0.58
	8,800,000	1.69

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 July 31, 2014. The amount of options exercisable at July 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 2014 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 $0.06 per share. As a result, the convertible note is not considered indexed to the Company's stock, and as such, all future changes in the fair value of these derivatives will be recognized currently in earnings in our consolidated statement of comprehensive loss under the caption "loss before other items and income taxes – Change in fair value of derivative liability" until such time as the convertible note payable is exercised or otherwise satisfied.

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

11. DERIVATIVE LIABILITY (continued

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:

(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.

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.

Office Lease

The Company leases its office space under a non-cancellable operating lease which expires in December 2015. Future minimum payments under this lease at July 31, 2014 are as follows:

Period Ended October 31,		
2014	$	20,739
2015		82,955
2016		13,825
	$	117,519

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 July 31, 2014 and 2013.

	July 31,			
		2014		**2013**
Business segment revenue:				
Oil and gas-United States	**$**	**178,069**	$	192,135
Oil and gas-Italy		**-**		-
Total revenue	**$**	**178,069**	$	192,135
Business segment loss				
Oil and gas-United States	**$**	**630,537**	$	627,861
Oil and gas-Italy		**158,820**		403,754
General administration		**416,019**		295,456
Net loss	**$**	**1,205,376**	$	1,327,071
Depletion and depreciation				
Oil and gas-United States	**$**	**11,984**	$	11,912
Oil and gas-Italy		**-**		-
General administration		**102**		342
Total depletion, depreciation and amortization	**$**	**12,086**	$	12,254
Capital expenditures				
Oil and gas-United States	**$**	**-**	$	5,817
Oil and gas-Italy		**152,277**		145,714
General administration		**-**		-
Total capital expenditures	**$**	**152,277**	$	151,531
Business segment assets				
Oil and gas-United States	**$**	**455,722**	$	364,526
Oil and gas-Italy		**5,956,443**		5,874,206
General administration		**354,322**		499,157
Total assets	**$**	**6,766,487**	$	6,737,889

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 July 31, 2014 the President of the Company's U.S. subsidiary, and director of the Company, incurred $2,740 in travel and office expenses on behalf of the Company compared to $nil for the same period in 2013. At July 31, 2014 the President to the Company's U.S. subsidiary owed the Company $7,904 for travel advances.

During the period ended July 31, 2014, a director of the Company incurred $38,115 compared to $47,372 for the same period in 2013 in consulting fees and $nil in travel expenses compared to $1,601 for the same period in 2013. At July 31, 2014 the Company owed the director $5,445 for unpaid consulting fees.

During the period ended July 31, 2014 a director of the Company incurred $49,005 compared to $46,291 for the same period in 2013 in consulting fees and $nil in travel and office expenses compared to $1,634 for the same period in 2013. At July 31, 2014 the Company owed the director $5,445 for unpaid consulting fees.

During the period ended July 31, 2014 the Company charged a management fee of $214,929 to Ale Anna Resources, of which $36,860 was eliminated in consolidation, compared to $231,907 for the same period in 2013. The Company has receivables from and unbilled charges to AleAnna Resources of $186,959 for unpaid management fees and expenses at July 31, 2014

The Company has a receivable of $108,154 from AleAnna Energy of which $55,158 is for the account of the third party owning 51% of AleAnna Energy.

During 2014 the Company entered into a financing arrangement with a shareholder for a principal amount of $2,126,825. The note provides, among other things, for the conversion of the note and accrued interest into stock of the Company.

18. SUBSEQUENT EVENTS

n/a