

**BRS RESOURCES LTD.**

**VANCOUVER, BC, CANADA**

**CONSOLIDATED FINANCIAL STATEMENTS**

**October 31, 2015 and 2014**

1. Management's Report
2. Auditors' Report
3. Consolidated Statements of Loss and Comprehensive Loss
4. Consolidated Statements of Financial Position
5. Consolidated Statements of Changes in Shareholders' Equity
6. Consolidated Statements of Cash Flows
7. Notes to Consolidated Financial Statements

## MANAGEMENT'S REPORT

The accompanying consolidated financial statements of BRS Resources Ltd. (the “Company”) and the related financial information presented in this annual report are the responsibility of management and have been approved by the Board of Directors. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards. The consolidated financial statements and related financial information reflect amounts which must, of necessity, be based upon informed estimates and judgments of management with appropriate consideration to materiality. All financial information contained in the annual report is consistent, where appropriate, with that contained in the consolidated financial statements.

The Company has developed and maintained systems of internal controls, policies and procedures in order to provide reasonable assurance as to the reliability of the financial records and the safeguard of assets. [Cinnamon Jang Willoughby Chartered Professional Accountants](#) has audited the consolidated financial statements in accordance with the Canadian generally accepted auditing standards on behalf of the shareholders. [Cinnamon Jang Willoughby](#) has full and free access to the Audit Committee. Their report is included in the consolidated financial statements.

The Board of Directors has established an Audit Committee. The Audit Committee reviews with management and the independent external auditors any significant financial reporting issues, the consolidated financial statements, and any other matters of relevance to the parties. The Audit Committee meets quarterly to review and approve the interim consolidated financial statements prior to their release, as well as annually to review the Company's annual consolidated financial statements and management's discussion and analysis, and to recommend their approval to the Board of Directors. The external auditors have unrestricted access to the Company, the Audit Committee and the Board of Directors.

“Byron Coulthard”

Byron Coulthard  
President and Chief Executive Officer

March 31, 2016



Chartered Professional Accountants

*A Partnership of Incorporated Professionals*

## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of **BRS Resources Ltd.**:

We have audited the accompanying consolidated financial statements of BRS Resources Ltd. (the "Company"), which comprise of the consolidated statements of financial position as at October 31, 2015 and October 31, 2014, and the consolidated statements of loss and comprehensive loss, consolidated statements of changes in shareholders' equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as at October 31, 2015 and October 31, 2014, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

**Emphasis of Matter**

We draw your attention to Note 2 to the consolidated financial statements which indicates that the continuation of the Company's operations is dependent on the ability to receive continued financial support or generate profitable operations in the future. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not qualified in respect of this matter.

**Other Matter**

The consolidated financial statements of the Company for the year ended October 31, 2014, were audited by another auditor who expressed an unmodified opinion on those statements on February 27, 2015.

"Cinnamon Jang Willoughby"

Chartered Accountants

Burnaby, BC  
March 31, 2016

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

	Year Ended October 31,	
	2015	2014
<b>REVENUE</b>		
Management fee	\$ 402,400	\$ 245,674
	<b>402,400</b>	245,674
<b>EXPENSES</b>		
Wages and benefits	566,591	569,062
Engineering and consulting fees	24,906	194,243
Legal and accounting	211,515	206,703
Office and general	69,493	74,047
Rent	107,071	89,504
Investor relations	16,480	76,990
Depletion, depreciation and amortization	16,176	16,125
Regulatory fees	4,410	12,988
Travel	2,593	9,866
	<b>1,019,235</b>	1,249,528
<b>LOSS BEFORE OTHER ITEMS AND INCOME TAXES</b>	<b>(616,835)</b>	(1,003,854)
Debt discount amortization	(465,359)	( 659,515)
Change in fair value of derivative liability	897,514	404,699
Interest expense	(126,949)	( 220,239)
Loss on conversion of note (Note 8)	(1,152,569)	-
Interest and other income	47,286	25,281
<b>LOSS BEFORE SHARE OF LOSS FROM EQUITY ACCOUNTED FOR INVESTMENT</b>	<b>(1,416,912)</b>	(1,453,628)
Share of loss from equity accounted for investment	(1,245,575)	(1,443,941)
<b>NET LOSS</b>	<b>(2,662,487)</b>	(2,897,569)
Foreign currency translation gain	115,233	59,767
Comprehensive Loss	<b>\$(2,547,254)</b>	\$(2,837,802)
<b>LOSS PER SHARE (basic and diluted)</b>	<b>\$ (0.03)</b>	(0.05)
<b>WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING (basic and diluted)</b>	<b>93,269,961</b>	52,724,776

See Accompanying Notes to Consolidated Financial Statements

## BRS Resources Ltd.

### CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Year Ended October 31,	
	2015	2014
<b>ASSETS</b>		
Current:		
Cash	\$ 41,125	\$ 170,302
Accounts and other receivables	15,507	10,006
Due from related parties	58,729	337,401
Prepaid expenses	9,473	11,015
Total Current Assets	124,834	528,724
Equity accounted investment (Note 6)	3,541,727	4,787,258
Other non-current assets	-	5,911
Property and equipment (Note 7)	12,463	28,639
Total Assets	\$ 3,679,024	\$ 5,350,532
<b>LIABILITIES</b>		
Current:		
Accounts payable and accrued expenses	\$ 114,363	\$ 214,899
Note payable, net discount (Note 8)	-	1,661,466
Total Current Liabilities	114,363	1,876,365
Derivative liability (Note 11)	-	897,514
Lease inducement payable	1,691	11,824
Total Liabilities	116,054	2,785,703
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 10)	34,040,842	30,495,447
Contributed surplus	2,890,187	2,890,187
Deficit	(33,665,319)	(31,002,832)
Accumulated other comprehensive income	297,260	182,027
Total Shareholders' Equity	3,562,970	2,564,829
Total Liabilities & Shareholders' Equity	\$ 3,679,024	\$ 5,350,532

See Accompanying Notes to Consolidated Financial Statements

APPROVED ON BEHALF OF THE BOARD:

*"Byron Coulthard"*

*"Michael Noonan"*

Byron Coulthard, President and Chief Executive Officer

Michael Noonan, Chief Financial Officer

**BRS Resources Ltd.****CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

	<b>Number of Shares</b>	<b>Share Capital</b>	<b>Contributed Surplus</b>	<b>Deficit</b>	<b>Accumulated Other Income</b>	<b>Equity</b>
<b>Balance, October 31, 2013</b>	52,724,776	\$ 30,495,447	\$ 2,890,187	\$ (28,105,263)	\$ 122,260	\$ 5,402,631
Net loss for the period				(2,897,569)		(2,897,569)
Foreign translation loss					59,767	59,767
<b>Balance, October 31, 2014</b>	52,724,776	30,495,447	2,890,187	(31,002,832)	182,027	2,564,829
Net loss for the period				(2,662,487)		(2,662,487)
Note payable conversion (Note 8)	69,154,170	3,545,395				3,545,395
Foreign translation gain					115,233	115,233
<b>Balance, October 31, 2015</b>	<u>121,878,946</u>	<u>\$ 34,040,842</u>	<u>\$ 2,890,187</u>	<u>\$ (33,665,319)</u>	<u>\$ 297,260</u>	<u>\$ 3,562,970</u>

**See Accompanying Notes to Consolidated Financial Statements**



**BRS Resources Ltd.****CONSOLIDATED STATEMENTS OF CASH FLOWS**

	<u>Year Ended October 31,</u>	
	<b>2015</b>	<b>2014</b>
<b>OPERATIONS</b>		
Net loss	<b>\$(2,662,487)</b>	\$(2,897,569)
Add items not affecting cash:		
Amortization expense on discount of debt	<b>465,359</b>	659,515
Fair value of derivative liability	<b>(897,514)</b>	(404,699)
Depletion, depreciation and amortization	<b>16,176</b>	16,125
Loss on convertible note exchange adjustment	<b>1,152,569</b>	-
Impairment expense	<b>1,052,360</b>	1,208,149
Loss from Equity Investment	<b>193,171</b>	235,792
	<b>(680,366)</b>	(1,182,687)
Change in non-cash working capital balance related to operations:		
Increase in accounts and other receivables	<b>(3,808)</b>	199,141
(Increase) decrease in due from related parties	<b>278,672</b>	(260,812)
Increase in other assets	<b>1,542</b>	(7,330)
Decrease in accounts payable and accrued expenses	<b>193,034</b>	244,085
Decrease in lease inducement liability	<b>(10,133)</b>	(10,133)
Net Cash from (used in) Operating Activities	<b>(222,751)</b>	(1,017,736)
<b>FINANCING</b>		
Increase in note payable	-	1,000,000
Note conversion expense	<b>(27,570)</b>	-
Net Cash from (used in) Financing Activities	<b>(27,570)</b>	1,000,000
<b>INVESTING</b>		
Petroleum and natural gas properties:		
Investment in Affiliate	-	(215,378)
Decrease (increase) in other restricted assets	<b>5,911</b>	(5,911)
Collection of note receivable	-	5,215
Net Cash from (used in) Investing Activities	<b>5,911</b>	(216,074)
Effect of foreign exchange	<b>115,233</b>	59,767
Decrease in cash	<b>(129,177)</b>	(174,043)
Cash, beginning of year	<b>170,302</b>	344,345
<b>CASH, end of year</b>	<b>\$ 41,125</b>	<b>\$ 170,302</b>

During the year ended October 31, 2015, \$2,420,396 of stock was issued in settlement of convertible notes.

During the year ended October 31, 2015, \$293,571 of accrued interest was rolled into principal in connection with the conversion of the Company's convertible note.

During the year ended October 31, 2014, \$126,825 of accrued interest was rolled into principal in connection with refinancing of the Company's convertible note.

During the year ended October 31, 2014, the derivative incurred, net of prior year discount amortization was \$981,277.

**See Accompanying Notes to Consolidated Financial Statements**

## **BRS Resources Ltd.**

# **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Years ended October 31, 2015 and 2014

---

### **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 under the symbol “BRS”. The Company is primarily engaged in production, exploration, and acquisition of petroleum and natural gas properties in Italy through its investment in AleAnna Energy, LLC (“AleAnna Energy”). The address of its registered head office is 510 Burrard Street, Suite 575, Vancouver B.C., V6C 3A8.

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 equity accounted for share of AleAnna Energy, a Delaware Limited Liability Company, which includes its wholly owned subsidiary of AleAnna Resources, LLC (“AleAnna Resources”), a Delaware Limited Liability Company.

### **2. BASIS OF PRESENTATION AND GOING CONCERN ASSUMPTIONS**

These consolidated financial statements of the Company as at and for the year ended October 31, 2015, with comparative information as at and for the year ended October 31, 2014, have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”), and with interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”) which the Canadian Accounting Standards Board has approved for incorporation into Part I of the CPA Canada Handbook – Accounting . These consolidated financial statements were authorized for issuance by the Board of Directors on March 31, 2016.

These consolidated financial statements have been prepared using accounting principles applicable to a going concern. The going concern basis assumes that the Company will continue its operations for the foreseeable future, and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. As at October 31, 2015, the Company has a net working capital of \$9,780 (2014 – negative \$1,347,641) and during the year then ended, it incurred a net loss of \$2,662,487 (2014 - \$2,897,569)

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. 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.

These consolidated financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue as a going concern. If the Company is not able to continue as a going concern, the Company may be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in these consolidated financial statements. These differences could be material.

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, unless otherwise indicated. The accounting policies have been applied consistently by all group entities and for all periods presented.

#### **Basis of Measurement**

The consolidated financial statements have been prepared under the historical cost convention, except for certain financial instruments, which are measured at fair value as determined at each reporting date.

#### **Principles of Consolidation**

The accompanying consolidated financial statements include the accounts of the Company’s wholly-owned subsidiary, Bonanza Resources and its equity accounted for share of AleAnna Energy. All significant intercompany balances and transactions have been eliminated in consolidation.

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Years ended October 31, 2015 and 2014

---

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **Equity Accounted Investments**

Equity accounted investments are investment over which the Company has significant influence, but not control. The financial results of the Company's equity accounted investment are included in the Company's consolidated financial statements using the equity method whereby the Company recognized its proportionate share of income or loss and other comprehensive income or loss of the equity accounted for investment in its own operations comprehensive income or loss, as applicable. Dilution gains and losses arising from changes in the Company's interest in equity accounted investments are recognized in net operations. If the Company's investment is reduced to zero, additional losses are not provided for, and a liability is not recognized, unless the Company has incurred legal or constructive obligations, or made payments on behalf of the equity accounted investment.

The company assesses at least annually whether there is objective evidence that its interests in equity accounted for investment are impaired. If impaired, the carrying value of the Company's share of the underlying assets of equity accounted for investments is written down to its estimated recoverable amount, with any difference charged to the consolidated statement of loss and comprehensive loss.

#### **Functional and presentational currency**

##### *Functional and Presentational Currency*

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

##### *Functional Currency of Subsidiaries and Equity Accounted Investments*

The financial statements of consolidated subsidiaries and equity accounted investments that have a functional currency that is different from that of the Company are translated into Canadian dollars using average rates for the period for items included in the consolidated statement of loss and comprehensive loss and the rates in effect at the date of the consolidated statement of financial position. All resulting changes are recognized in comprehensive income or loss as cumulative translation adjustments. If the Company's interest in foreign operations of a subsidiary is diluted, but the foreign operations remain a subsidiary, a pro rata portion of cumulative translation adjustments related to those foreign operations are reallocated between controlling and non-controlling interest. When the Company disposes of its entire interest in foreign operations, or when it loses control or significant influence, the cumulative translation adjustment included in accumulated comprehensive income or loss related to the foreign operations is recognized in the consolidated statement of loss and comprehensive loss on a pro rata basis.

##### *Transactions*

Foreign currency transactions are translated into the Company's functional currency using exchange rates prevailing at the dates of the transactions. Generally, foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation of monetary assets and liabilities denominated in currencies other than the Company's functional currency at each period-end date, are recognized in the consolidated statement of loss and comprehensive loss.

#### **Cash**

The Company considers cash all funds held in bank accounts and petty cash.

#### **Equipment**

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

#### **Impairment**

At each date of the statement of financial position, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is an indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the assets belong.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Years ended October 31, 2015 and 2014

---

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **Impairment (continued)**

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in the statement of comprehensive income, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease. Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years.

#### **Financial instruments**

The Company's financial instruments include cash, accounts and other receivable, due from related parties, accounts payable and accrued liabilities, note payable, and derivative liability.

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or are assigned and the Company has transferred substantially all risks and rewards of ownership in respect of the asset. Financial liabilities are derecognized when the related obligation is discharged or cancelled, or when such obligation expires.

Classification of financial instruments in the Company's consolidated financial statements depends on the purpose for which the financial instruments were acquired or incurred. Management determines the classification of financial instruments at initial recognition.

#### *Financial Assets and Liabilities at Fair Value through Profit or Loss*

A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short term. Derivatives, if any, are also included in this category, unless they are designated as hedges. The Company's derivative financial instruments, which have not been designated as hedges for accounting purposes, have been classified in this category. Transaction costs related to these financial instruments are expensed in the consolidated statement of loss and comprehensive loss.

#### *Derivative Financial Instruments*

The Company's financial instruments classified as derivative financial instruments is derivative liability. These derivative contracts are carried at fair value and are generally reported as assets in circumstances when they have a positive fair value and as liabilities when they have a negative fair value. Both realized and unrealized gains and losses from changes in fair value of these derivative contracts are recorded in the consolidated statement of loss and comprehensive loss.

#### *Loans and Receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's financial assets that are classified as loans and receivables include cash, accounts and other receivable, due from related parties. Financial assets classified as loans and receivables are initially recognized at the amount expected to be received less, when material, a discount to reduce the carrying value of the financial asset to its fair value. Subsequently, financial assets classified as loans and receivables are measured at amortized cost using the effective interest method, less a provision for impairment as may be required.

#### *Financial Liabilities at Amortized Cost*

The Company's financial instruments classified as financial liabilities at amortized cost are accounts payable and accrued liabilities, and note payable. Financial instruments designated as financial liabilities at amortized cost are initially recognized at the amount required to be paid, less, when material, a discount to reduce the carrying value of the liability to its fair value. Subsequently, these financial liabilities are measured at amortized cost using the effective interest method. Financial liabilities are classified as current liabilities if payment is due within 12 months. Otherwise, they are presented as non-current liabilities.

#### **Revenue Recognition**

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

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Years ended October 31, 2015 and 2014

---

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **Basic and Diluted Loss Per Share**

Basic loss per share is calculated by dividing the net loss available to common shareholders by the weighted average number of shares outstanding during the year. Diluted earnings per share reflect the potential dilution of securities that could share in earnings of an entity. In a loss year, potentially dilutive common shares are excluded from the loss per share calculation as the effect would be anti-dilutive. Basic and diluted loss per share are the same for the periods presented.

For the year ended October 31, 2015, potentially dilutive common shares relating to options and warrants outstanding totaling 10,165,000 at October 31, 2015 (2014 – 10,300,000) were not included in the computation of loss per share because their effect was anti-dilutive.

#### **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 equipment 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.

Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the relevant vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The fair value of options is determined using a Black-Scholes pricing model. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

#### **Income Taxes**

The Company follows the balance sheet liability method to provide for income taxes on all transactions recorded in its consolidated financial statements. The balance sheet liability method requires that income taxes reflect the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities and their tax bases. Deferred income tax assets and liabilities are determined for each temporary difference and for unused tax losses and unused tax credits, as applicable, at rates expected to be in effect when the asset is realized or the liability is settled. The effect on deferred income tax assets and liabilities of a change in tax rates is recognized in the consolidated statement of loss and comprehensive loss, as appropriate, in the period that includes the substantive enactment date. Deferred tax assets are recognized only to the extent that it is probable that the assets can be recovered.

Current tax expense is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regard to previous years.

#### **Critical Judgments , Estimates, and Assumptions**

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) stock-based compensation is based upon expected volatility and option life estimates; (ii) 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; (iii) 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 (iv) 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.

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Years ended October 31, 2015 and 2014

---

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **Accounting Standards, Interpretations and Amendments to Existing Standards not yet Effective**

##### *IAS 1, "Presentation of Financial Statements" ("IAS 1")*

In December 2014, the IASB issued amendments to IAS 1, clarifying guidance on the concepts of materiality and aggregation of items in the financial statements, the use and presentation of subtotals in the statement of operations and the statement of comprehensive income or loss, and providing additional flexibility in the structure and disclosures of the financial statements to enhance understandability. The amendments to IAS 1 become mandatory for annual periods beginning on or after January 1, 2016. The Company does not expect that these amendments will have a significant impact to the Company's consolidated financial statements.

##### *IFRS 10, "Consolidated Financial Statements" ("IFRS 10") and IAS 28, "Investments in Associates and Joint Ventures (2011)" ("IAS 28")*

In September 2014, the IASB announced certain amendments to IFRS 10 and IAS 28 that resolved certain inconsistencies in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments provide that a full gain or loss is recognized when a transaction involves a business, whereas a partial gain or loss is recognized when a transaction involves assets that do not constitute a business. The amendments will be effective from annual periods commencing on or after January 1, 2016. The Company does not expect that these amendments will have a significant impact to the Company's consolidated financial statements.

##### *IFRS 9, "Financial Instruments" ("IFRS 9")*

IFRS 9, published in July 2014, replaces IAS 39, "*Financial Instruments: Recognition and Measurement*".

IFRS 9 introduces new requirements for the classification, measurement and impairment of financial assets and hedge accounting. It establishes two primary measurement categories for financial assets: (i) amortized cost, and (ii) fair value; establishes criteria for classification of financial assets within the measurement category based on business model and cash flow characteristics; and eliminates existing held for trading, held to maturity, available for sale, loans and receivable and other financial liabilities categories. IFRS 9 also introduces a new model for the impairment of financial assets and requires an economic relationship between the hedged item and hedging instrument. This standard is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted. The Company is in the process of evaluating the impact that IFRS 9 may have on the Company's consolidated financial statements.

##### *IFRS 11, "Joint Arrangements" ("IFRS 11")*

In May 2014, the IASB issued amendments to IFRS 11 to address the accounting for acquisitions of interests in joint operations. The amendments address how a joint operator should account for the acquisition of an interest in a joint operation in which the activity of the joint operation constitutes a business. IFRS 11, as amended, now requires that such transactions be accounted for using the principles related to business combinations accounting as outlined in IFRS 3, "*Business Combinations*". The amendments are to be applied prospectively and are effective for annual periods beginning on or after January 1, 2016, with earlier application permitted. The Company does not expect that these amendments will have a significant impact to the Company's consolidated financial statements.

##### *IFRS 15, "Revenue from Contracts with Customers" ("IFRS 15")*

In May 2014, the IASB issued IFRS 15, which supersedes IAS 18, "*Revenue*", IAS 11 "*Construction Contracts*" and other interpretive guidance associated with revenue recognition. IFRS 15 provides a single model to determine how and when an entity should recognize revenue, as well as requiring entities to provide more informative, relevant disclosures in respect of its revenue recognition criteria. IFRS 15 is to be applied prospectively and is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. The Company is in the process of evaluating the impact that IFRS 15 may have on the Company's consolidated financial statements.

##### *IAS 16, "Property, Plant and Equipment" ("IAS 16") and IAS 38, "Intangible Assets" ("IAS 38")*

In May 2014, the IASB issued amendments to IAS 16 and IAS 38 to clarify acceptable methods of depreciation and amortization. The amended IAS 16 eliminates the use of a revenue-based depreciation method for items of property, plant and equipment. Similarly, amendments to IAS 38 eliminate the use of a revenue-based amortization model for intangible assets except in certain specific circumstances. The amendments are to be applied prospectively and are effective for annual periods beginning on or after January 1, 2016. The Company does not expect that these amendments will have a significant impact to the Company's consolidated financial statements.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Years ended October 31, 2015 and 2014

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

**Accounting Standards, Interpretations and Amendments to Existing Standards not yet Effective (continued)**

*IFRS 16, “Leases” (“IFRS 16”)*

In January 2016, the IASB issued IFRS 16, replacing IAS 17, “Leases”. IFRS 16 provides a single lessee accounting model and requires the lessee to recognize assets and liabilities for all leases on its balance sheet, providing the reader with greater transparency of an entity’s lease obligations. Leases to explore for or use oil or natural gas are specifically excluded from the scope of IFRS 16. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted. The Company has not initiated an analysis of the impact of adopting IFRS 16 to its consolidated financial statements.

**4. RISKS AND CONCENTRATIONS**

**Fair values**

Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

At October 31, 2015, certain financial instruments were recorded at fair value on the statement of financial position with changes to fair value being reported in the statement of loss, except for those investments that do not have a quoted market price in an active market, which are measured at cost. The fair value measurement of these instruments is classified according to the following hierarchy based on the amount of observable inputs available to value the instrument.

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 – Inputs are other than quoted prices in Level 1 that are either directly or indirectly observable for the asset or liability.
- Level 3 – Inputs for the asset or liability that are not based on observable market data.

Assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement within the fair value hierarchy level.

The Company’s cash, accounts and other receivables, due from related parties, accounts payable and accrued liabilities, notes payable net of discount have been valued using Level 1 inputs. Derivative liability has been valued using Level 3 inputs. The fair value of the Company’s financial instruments has been classified within the fair value hierarchy as at October 31, 2015 as follows:

<b>2015</b>	Level 1	Level 2	Level 3
Financial Assets:			
Cash	41,125		
Account and other receivables	15,507		
Due from related parties	58,729		
Financial Liabilities:			
Accounts payable and accrued liabilities	(114,363)		

The Company’s cash, accounts and other receivables, due from related parties, accounts payable and accrued liabilities, notes payable net of discount have been valued using Level 1 inputs. Derivative liability has been valued using Level 3 inputs. The fair value of the Company’s financial instruments has been classified within the fair value hierarchy as at October 31, 2014 as follows:

<b>2014</b>	Level 1	Level 2	Level 3
Financial Assets:			
Cash	170,302		
Account and other receivables	10,007		
Due from related parties	337,401		
Financial Liabilities:			
Accounts payable and accrued Liabilities	(214,889)		
Note payable net of discount	(1,661,466)		
Derivative liability			(897,514)

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Years ended October 31, 2015 and 2014

---

### **4. RISKS AND CONCENTRATIONS (continued)**

#### **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 Company ("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 an 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 Bonanza Resources in US dollars. At October 31, 2015, the Company had \$114,271 in current assets and \$61,977 in current liabilities originating in the United States (2014 - \$353,343 and \$49,097, respectively).

#### **Liquidity risk**

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

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.

### **5. CAPITAL MANAGEMENT**

The Company defines the capital that it manages as its working capital. 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.

### **6. EQUITY ACCOUNTED INVESTMENT**

The Company's 100% owned subsidiary, Bonanza Resources, owns a 15.21% (2014 – 17.15%) interest in AleAnna Energy L.L.C. ("AleAnna") which owns 100% of AleAnna Resources L.L.C. AleAnna Resources L.L.C. 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"). The remaining interest in AleAnna is held by Bluescape Resources.

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 3-D 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 2013, AleAnna Resources executed a participation agreement with Andiamo Resources, LLC on a 3,953-acre (16 km<sup>2</sup>) 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.



## **BRS Resources Ltd.**

# **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Years ended October 31, 2015 and 2014

---

### **6. EQUITY ACCOUNTED INVESTMENT (continued)**

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. AleAnna Resources expects to drill the well in the second half of 2016.

#### *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 acquired a 10% interest in the fully awarded exploration license La Prospera 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.

On February 1, 2016 AleAnna Resources acquired PVE's 75% interest in La Prospera and PVE's 75% interest in the preliminarily awarded adjacent exploration license, Zanza. La Prospera exploration permit area is located northwest of Corte dei Signori in the Ferrara province of north of Bologna. AleAnna now owns 85% of the La Prospera permit, 85% of the Gradizza production concession and 85% of the Zanza exploration license.

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 Gradizza-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.

#### *Ponte Del Diavolo 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.

AleAnna Resources submitted a drilling permit application for its Viconoco prospect, located approximately 3.5 miles (5.6 km) southwest of the Gradizza-1 discovery well.

#### *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. 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 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. 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 3-D 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 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). To date, AleAnna Resources has done preliminary geological and geophysical studies on the area, but has yet to commit significant resources to these holdings.

### **Partnership Capital Raise**

In order to fund the costs associated with the operations, AleAnna raises funds through voluntary cash calls to its members.

Effective September 1, 2014 AleAnna Energy acquired the remaining 65% interest in AleAnna Resources. The Company elected to not participate for its pro-rata share of the acquisition. Accordingly, the Company's interest in AleAnna Energy was reduced to its original interest in AleAnna Resources. There were additional capital calls throughout 2015 that the Company elected to not participate in, further diluting their interest to approximately 15%.

## BRS Resources Ltd.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended October 31, 2015 and 2014

#### 6. EQUITY ACCOUNTED INVESTMENT (continued)

##### Accounting for the Company's Investment in AleAnna

The Company accounts for Bonanza Resources interest in AleAnna using the equity method. During the year ended October 31, 2015, the Company recognized \$193,171 (2014 - \$235,792) as its share of loss from AleAnna which were deducted from the carrying value of the Company's investment.

An impairment test is performed if the Company identifies an indicator of impairment. At October 31, 2015, the Company determined that indicators of impairment existed due to a decline in the economic factors affecting the oil and gas industry, therefore an impairment test was performed for this investment.

An impairment is recognized if the carrying value exceeds the recoverable amount for this investment. The recoverable amount of this investment was measured using the fair value less cost to sell, determined by using the market cap of the company at year end as the indicator of the fair value of this investment. The market cap takes into account all publicly known information about the company, its operations and the oil and gas industry and accurately reflects the markets value of this investment.

The following table provides a continuity of the Company's investment in AleAnna during the years ended October 31, 2013 to October 31, 2015.

Carrying value, October 31, 2013	6,015,821
Transactions during the year ended October 31, 2014:	
Investment in equity accounted investment – capital calls	215,378
Share of loss from equity accounted investment	(235,792)
Impairment	(1,208,149)
Carrying value, October 31, 2014	4,787,258
Transactions during the year ended October 31, 2013:	
Investment in equity accounted investment – capital calls	-
Share of loss from equity accounted investment	(193,171)
Impairment	(1,052,360)
Carrying value, October 31, 2015	\$ 3,541,727

AleAnna's year end is December 31, 2015. The following table summarizes financial information about AleAnna's assets and liabilities and the net and comprehensive loss for the 12 month periods ending October 31, 2015 and 2014. The Company has included in its consolidated financial statements, equity accounted for information based on the 12 month period ending October 31, 2015 and 2014. For purposes of the following disclosure, the assets and liabilities have been translated using prevailing foreign exchange rates at the dates of the consolidated statements of financial position.

As at and for the periods ended October 31,	2015	2014
Assets	4,692,140	5,160,110
Liabilities	36,425	63,858
Net loss	184,783	64,865
Ownership percentage	15.21%	17.15%

#### 7. EQUIPMENT

Office Equipment	Cost	Accumulated Depreciation	Net Book Value
Balance, October 31, 2013	87,750	42,986	44,764
Additions	-	16,125	(16,125)
Balance, October 31, 2014	87,750	59,111	28,639
Additions	-	16,176	(16,176)
Balance, October 31, 2015	87,750	75,287	12,463

#### 8. 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 was 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.

## BRS Resources Ltd.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended October 31, 2015 and 2014

#### 8. NOTE PAYABLE (continued)

The holder of the note had the right, but not the obligation, to convert any unpaid principal balance of the note into fully paid and non-assessable 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.

On March 26, 2015, the Company entered into a debt settlement agreement dated March 26, 2015 (the "Agreement") with Double Black Diamond L.P. (the "Holder") with respect to the settlement of a secured convertible note dated March 31, 2014 (the "Note") in the principal amount of \$2,126,825 issued by the Company to Holder. Pursuant to the terms of the Agreement, on March 31, 2015 the Company issued 69,154,170 common shares at a deemed price of \$0.035 per Share, in settlement of \$2,420,396, being the aggregate principal amount of the Note and accrued interest thereon. The value of the additional shares issued as a result of the change in the conversion price is included in the consolidated statement of loss and comprehensive loss as an expense.

#### 9. INCOME TAXES

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

	2015	2014
Combined Statutory tax rate	<u>28.94%</u>	<u>31.39%</u>
Income recovery at statutory rate	\$ (454,476)	(909,675)
Equity issuance cost	50,548	(28,395)
Non-deductible derivative activity	(125,066)	79,987
Loss on conversion of notes	333,553	-
Other	(128,733)	20,773
Change in valuation allowance	324,174	837,310
Future income Tax	\$ -	-

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

Non-Capital losses	\$ 3,818,937	3,674,250
Unrealized loss on partnership interest	157,210	165,442
Unrealized impairment loss	349,928	379,552
Valuation Allowance	(4,326,075)	(4,219,244)
	\$ -	-

The Company has non-capital loss carry-forwards and allowances of approximately \$5,792,257 for Canadian tax purposes and \$7,404,292 for U.S. tax purposes. These losses expire from 2023 to 2034 and are available to offset future taxable income.

## BRS Resources Ltd.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended October 31, 2015 and 2014

### 10. SHARE CAPITAL

Authorized – unlimited common shares

#### Issued and Fully Paid -

	Number	Amount
Balance October 31, 2013 and 2014	52,724,776	\$ 30,495,447
Shares issued for debt (Note 11)	69,154,170	3,545,395
Balance, October 31, 2015	121,878,946	\$ 34,040,842

#### Warrants

A Summary of the Company's issued and outstanding share purchase warrants as at October 31, 2015, 2014, 2013, and 2012 and changes during those periods is presented below:

#### Warrants (continued)

	Warrants Outstanding	Weighted Average Exercise Price
Balance, October 31, 2013	12,755,400	0.43
Exercised or expired	(11,255,400)	(0.45)
Balance, October 31, 2014	1,500,000	0.30
Exercised or expired	(1,500,000)	(0.30)
Balance, October 31, 2015	-	-

In November 2011, the Company completed a private placement of 20,000,000 units in connection with issuing convertible debt at \$0.30 per unit for gross proceeds of \$6,000,000. Each unit was comprised of one common share of the Company and one-half of one share purchase warrant, with each whole warrant exercisable into one common share at \$0.45 per share until November 2013.

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

As at October 31, 2013, the Company had warrants outstanding enabling holders to acquire the following:

Number of Shares	Exercise Price per Share	Expiry Date
10,750,000	0.45	November 14, 2013
505,400	0.40	December 1, 2013
1,500,000	0.30	November 4, 2014
12,755,400		

As at October 31, 2014, the Company had warrants outstanding enabling holders to acquire the following:

Number of Shares	Exercise Price per Share	Expiry Date
1,500,000	0.30	November 4, 2014

As at October 31, 2015, the Company had no warrants outstanding.

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.

## BRS Resources Ltd.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended October 31, 2015 and 2014

#### 10. SHARE CAPITAL (continued)

##### Stock Based Compensation

A Summary of the Company's issued and outstanding stock based compensation as at October 31, 2015, 2014 and 2013 and changes during those periods is presented below:

	<b>Options Outstanding</b>	<b>Weighted Average Exercise Price</b>
Balance, October 31, 2013 and 2014	8,800,000	0.25
Exercised or expired	(135,000)	(0.50)
Balance, October 31, 2015	8,665,000	0.25

As at October 31, 2013, the Company had stock based compensation enabling holders to acquire the following:

<b>Number of Shares</b>	<b>Exercise Price per Share (\$)</b>	<b>Weighted Average Remaining Contract Life (Years)</b>
3,000,000	0.10	4.50
70,000	0.25	2.61
680,000	0.27	2.13
1,555,000	0.30	3.08
3,360,000	0.35	2.25
135,000	0.50	1.33
8,800,000		2.47

As at October 31, 2014, the Company had stock based compensation enabling holders to acquire the following:

<b>Number of Shares</b>	<b>Exercise Price per Share (\$)</b>	<b>Weighted Average Remaining Contract Life (Years)</b>
3,000,000	0.10	3.75
70,000	0.25	1.86
680,000	0.27	1.38
1,555,000	0.30	2.33
3,360,000	0.35	1.50
135,000	0.50	0.58
8,800,000		1.69

As at October 31, 2015, the Company had stock based compensation enabling holders to acquire the following:

<b>Number of Shares</b>	<b>Exercise Price per Share (\$)</b>	<b>Weighted Average Remaining Contract Life (Years)</b>
3,000,000	0.10	2.50
70,000	0.25	0.61
680,000	0.27	0.04
1,555,000	0.30	1.08
3,360,000	0.35	0.25
8,665,000		1.16

#### 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 warrants issued by the Company in November 2011 qualify as a derivative because these warrants have an adjustment provision applicable to the exercise price that adjusts the exercise price downward in the event 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 \$0.45 per share. As a result, these warrants are not considered indexed to the Company's stock, and as such, all future changes in the fair value of these warrants will be recognized currently in earnings in our consolidated statement of loss and comprehensive loss under the caption "loss before other items and income taxes – Change in fair value of warrant derivative liability" until such time as the warrants are exercised or expire.

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

## BRS Resources Ltd.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended October 31, 2015 and 2014

### 11. DERIVATIVE LIABILITY (continued)

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 loss and comprehensive loss under the caption "loss before other items and income taxes – Change in fair value of derivative liability" until such time as the convertible note payable is exercised or otherwise satisfied.

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

The Company used the Black-Scholes valuation model including a probability element to estimate the fair value of the derivative liability, which is considered a Level 2 fair value measurement. During second quarter of fiscal 2015, the company converted this liability to shares. Therefore, the balance owing at Oct 31, 2015 is \$nil. Significant assumptions used at October 31, 2014 were as follows:

	<b>October 31, 2014</b>
Market value of stock (1)	\$0.07
Risk-Free interest rate	0.994%
Dividend yield (3)	0.00%
Volatility factor	128%
Expected life (4)	1 year

(1) The market value of the stock on the date of reporting was based on reported public market prices.

(2) The risk-free interest rate was determined by management using the U.S. Treasury zero-coupon yield over the contractual term of the warrant on date of reporting.

(3) Management determined the dividend yield to be 0% based upon its expectation that there will not be earnings available to pay dividends in the near term.

(4) Expected life is remaining contractual life of the warrants.

The change in the derivative liability is as follows:

Balance, October 31, 2013	320,936
Increase due to issuance of convertible note	981,277
Change in fair value	(404,699)
Balance, October 31, 2014	897,514
Decrease due to share conversion (Note 10)	(897,514)
Balance, October 31, 2015	-

### 12. LOSS PER SHARE

Loss per share is calculated using the weighted average number of common shares outstanding during the year. For the years ended October 31, 2014 the Company had potentially dilutive shares of 39,724,111 that were excluded from the earnings per share calculation because their impact would be anti-dilutive. For the years ended October 31, 2014, the diluted loss per share is the same as the basic loss per share, as the effect of common stock equivalents is anti-dilutive.

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Years ended October 31, 2015 and 2014

---

### **13. COMMITMENTS**

#### **Office Lease**

The Company leases its office space under a non-cancellable operating lease which expires in December 2015. Future minimum payments under this lease at October 31, 2015 are \$13,825. The lease has not been renewed.

### **14. 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, 2015 the President of Bonanza Resources, and director of the Company, incurred \$753 in travel and office expenses compared to \$5,333 for the same period in 2014. At October 31, 2015 the President of Bonanza Resources owed the Company \$6,805 for travel and other advances.

During the year ended October 31, 2015, a director of the Company incurred \$6,542 compared to \$62,013 for the same period in 2014 in consulting fees and nil in travel and office expenses compared to \$ nil for the same period in 2014. At October 31, 2015 the Company owed the director \$ nil for consulting fees and related expenses.

During the year ended October 31, 2015 the Company charged a management fee of \$474,591 (2014- \$296,528) to AleAnna Resources, of which \$72,185 (2014-\$50,855) was eliminated in consolidation. The Company has receivables from AleAnna Resources of \$41,419 for unpaid management fees and expenses at October 31, 2015.

During the year ended October 31, 2014, the Company entered into a financing arrangement with a shareholder for an additional principal amount of \$1,000,000 and rolling accrued interest on the existing note into a new note with a principal amount of \$2,126,825. The original financing arrangement was entered into during 2013 with an initial amount of \$1,000,000. On March 31, 2015 the Company paid the note and accrued interest totalling \$2,420,396 by issuing 69,154,170 shares of common stock at a price of \$0.035.