

**BRS RESOURCES LTD.**

**VANCOUVER, BC, CANADA**

**CONSOLIDATED FINANCIAL STATEMENTS**

**January 31, 2018 and 2017**

1. Consolidated Statements of Comprehensive Loss
2. Consolidated Statements of Financial Position
3. Consolidated Statements of Changes in Shareholders' Equity
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# **BRS Resources Ltd.**

## **CONSOLIDATED FINANCIAL STATEMENTS**

**For the Three Months Ended January 31, 2018 and 2017**

### Responsibility for Financial Statements

The accompanying unaudited 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, 2017 annual audited financial statements. These statements are presented on the accrual basis of accounting. Accordingly, a precise determination of many of the assets and liabilities is dependent upon future events. Therefore, estimates and approximations have been made using careful judgment. Recognizing that the Company is responsible for both the integrity and objectivity of the consolidated financial statements, management is satisfied that these consolidated financial statements have been fairly presented.

### Auditors’ Involvement

The auditors of BRS Resources Ltd. have not performed a review of the unaudited consolidated financial statements for the three months ended January 31, 2018 and 2017

**BRS Resources Ltd****CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS (UNAUDITED)****3 Months Ended January 31,**

|   | <b>2018</b>        | <b>2017</b>         |
|---|--------------------|---------------------|
| <b>REVENUE</b>  |                    |                     |
| Management fee  | \$ -               | \$ -                |
|   | -                  | -                   |
| <b>EXPENSES</b>   |                    |                     |
| Engineering and consulting fees   | 20,675             | -                   |
| Legal and accounting  | 22,781             | 9,268               |
| Office and general  | 8,851              | 3,758               |
| Investor relations  | -                  | 210                 |
| Depreciation and amortization   | 96                 | 144                 |
|   | 52,403             | 13,380              |
| <b>INCOME (LOSS) BEFORE SHARE OF LOSS FROM EQUITY INVESTMENT</b>                | <b>(52,403)</b>    | <b>(13,380)</b>     |
| <b>Share of loss from equity accounted for investment</b>                       | <b>-</b>           | <b>(443,820)</b>    |
| <b>NET INCOME (LOSS)</b>  | <b>(52,403)</b>    | <b>(457,200)</b>    |
| <b>Foreign currency translation gain</b>  | <b>2,386</b>       | <b>2,123</b>        |
| <b>Comprehensive Loss</b>   | <b>\$ (50,017)</b> | <b>\$ (455,078)</b> |
| <b>LOSS PER SHARE (basic and diluted)</b>                                       | <b>\$ 0.00</b>     | <b>\$ 0.00</b>      |
| <b>WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING (basic and diluted)</b> |                    |                     |
|   | <b>130,428,946</b> | <b>124,878,946</b>  |

See Accompanying Notes to Consolidated Financial Statements

**BRS Resources Ltd.****CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (UNAUDITED)**

|   | January 31, 2018 | October 31, 2017 |
|---|------------------|------------------|
| <b>ASSETS</b>                             |                  |                  |
| Current:                                  |                  |                  |
| Cash                                      | \$ 43,241        | 128,459          |
| Accounts and other receivables            | 9,204            | 6,977            |
| Due from related parties                  | 39,269           | 6,669            |
| Prepaid expenses                          | -                | -                |
| Total Current Assets                      | 91,714           | 142,105          |
| Equity accounted for investments [Note 3] | 1,787,744        | 1,787,744        |
| Property and equipment [Note 4]           | 1,583            | 1,823            |
| Total Assets                              | \$ 1,881,041     | 1,931,672        |
| <b>LIABILITIES</b>                        |                  |                  |
| Current:                                  |                  |                  |
| Accounts payable and accrued expenses     | \$ 108,681       | 109,295          |
| Due to related party                      | -                | -                |
| Total Current Liabilities                 | 108,681          | 109,295          |
| <b>SHAREHOLDERS' EQUITY</b>               |                  |                  |
| Share capital [Note 5]                    | 34,209,418       | 34,209,418       |
| Contributed surplus [Note 6]              | 3,073,187        | 3,073,187        |
| Deficit                                   | (35,821,753)     | (35,769,350)     |
| Accumulated other comprehensive income    | 311,508          | 309,122          |
| Total Shareholders' Equity                | 1,772,360        | 1,822,377        |
| Total Liabilities & Shareholders' Equity  | \$ 1,881,041     | 1,931,672        |

See Accompanying Notes to Consolidated Financial Statements

**APPROVED ON BEHALF OF THE BOARD:**

Byron Coulthard

President and Chief Executive Officer

Byron Coulthard

Chief Financial Officer

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

|                                  | Number of   |               |              |                 | Accumulated |              |
|----------------------------------|-------------|---------------|--------------|-----------------|-------------|--------------|
|                                  | Shares      | Capital       | Surplus      | Deficit         | Other       | Equity       |
|                                  |             |               |              |                 | Income      |              |
| <b>Balance, October 31, 2016</b> | 124,878,946 | \$ 34,058,842 | \$ 2,962,187 | \$ (34,449,022) | \$ 306,239  | \$ 2,878,246 |
| Net loss for period              | -           | -             | -            | (457,200)       | -           | (457,200)    |
| Foreign translation gain         | -           | -             | -            | -               | 2,123       | 2,123        |
| <b>Balance, January 31, 2017</b> | 124,878,946 | 34,058,842    | 2,962,187    | (34,906,222)    | 308,362     | 2,423,169    |
| Private placement                | 5,550,000   | 166,501       | 111,000      | -               | -           | 277,501      |
| Share issuance cost              | -           | (15,925)      | -            | -               | -           | (15,925)     |
| Net loss for period              | -           | -             | -            | (863,128)       | -           | (863,128)    |
| Foreign translation gain         | -           | -             | -            | -               | 760         | 760          |
| <b>Balance, October 31, 2017</b> | 130,428,946 | 34,209,418    | 3,073,187    | (35,769,350)    | 309,122     | 1,822,377    |
| Net loss for period              | -           | -             | -            | (52,403)        | -           | (52,403)     |
| Foreign translation gain         | -           | -             | -            | -               | 2,386       | 2,386        |
| <b>Balance, January 31, 2018</b> | 130,428,946 | 34,209,418    | 3,073,187    | (35,821,753)    | 311,508     | 1,772,360    |

See Accompanying Notes to Consolidated Financial Statements

**BRS Resources Ltd.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**

|  | <b>3 Months Ended January 31,</b> |                 |
|--|-----------------------------------|-----------------|
|  | <b>2018</b>                       | <b>2017</b>     |
| <b>OPERATIONS</b>  |                                   |                 |
| Net loss   | \$ (52,403)                       | \$ (457,200)    |
| Add items not affecting cash:                                      |                                   |                 |
| Depreciation and amortization                                      | 240                               | 144             |
| Loss from equity accounted for investment                          | -                                 | 443,820         |
|  | <b>(52,163)</b>                   | <b>(13,236)</b> |
| Change in non-cash working capital balances related to operations: |                                   |                 |
| (Increase) decrease in accounts and other receivables              | (2,227)                           | (465)           |
| (Increase) decrease in due from related parties                    | (32,600)                          | -               |
| (Increase) decrease in prepaid and other assets                    | -                                 | 1,000           |
| (Increase) decrease in accounts payable and accrued expenses       | (613)                             | (28,911)        |
| Net Cash from (used in) Operating Activities                       | <b>(87,603)</b>                   | <b>(41,612)</b> |
| <b>Effect of foreign exchange</b>                                  | <b>2,386</b>                      | <b>2,123</b>    |
| Increase in cash   | <b>(85,217)</b>                   | <b>(39,489)</b> |
| Cash, beginning of period  | <b>128,458</b>                    | <b>40,811</b>   |
| <b>CASH, end of period</b>   | <b>\$ 43,241</b>                  | <b>\$ 1,322</b> |

See Accompanying Notes to Consolidated Financial Statements

## **BRS Resources Ltd.**

# **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Periods ended January 31, 2018 and 2017

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### **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 999 Canada Place, Suite 404, Vancouver B.C., V6C 3E2

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 period ended January 31, 2018, with comparative information as at and for the period ended January 31, 2017, 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 30, 2018.

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. At January 31, 2018, the Company has net working capital of negative \$16,967 and at January 31, 2017 working capital of negative \$106,910.

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**

Periods ended January 31, 2018 and 2017

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### **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.

Effective November 1, 2016, the Company discontinued the use of equity method in accounting for the investment in AleAnna. In 2014, the Company obtained the right to appoint a director to AleAnna and thus had one out of five seats on the board of directors of this investee. Given the existence of significant influence, the Company started to apply equity method back in 2014 although the Company's ownership interest in AleAnna decreased from 17.15% in 2014 to 8.33% in 2017 due to AleAnna issued new shares to the majority shareholder throughout 2015 to 2017. As a result of the transactions, the Company's ownership interest in AleAnna diluted to 8.08% (2017 8.48%). Consequently, the accounting treatment for AleAnna's investment changed from equity method to cost method. The change in such accounting policy has an impact to the consolidated financial statements.

#### **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 Subsidiary and Equity Accounted Investment*

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.

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

**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.

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.

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Periods ended January 31, 2018 and 2017

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

#### *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.

#### **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 three months ended January 31, 2018, there were 3,000,000 potentially dilutive common shares relating to warrants and options outstanding totaling (2017 3,000,000) 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.

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Periods ended January 31, 2018 and 2017

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

#### **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.

#### **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.

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Periods ended January 31, 2018 and 2017

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

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

##### *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.

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.

## **1. 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 January 31, 2018 and October 31, 2017, 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.

1. Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.
2. Level 2 – Inputs are other than quoted prices in Level 1 that are either directly or indirectly observable for the asset or liability.
3. 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 January 31, 2018 as follows:

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Periods ended January 31, 2018 and 2017

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### **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 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 January 31, 2018, the Company had no current assets and \$52,599 in current liabilities originating in the United States (\$0 and \$90,492 respectively in 2017).

#### **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.

## **2. 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.

## **3. EQUITY ACCOUNTED INVESTMENT**

The Company's 100% owned subsidiary, Bonanza Resources, owns a 8.08 % (2017 8.48%) interest in AleAnna Energy L.L.C. ("AleAnna") which owns 100% of AleAnna Resources L.L.C. AleAnna Resources L.L.C. holds ten "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 134,000 acres (545 [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.

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Periods ended January 31, 2018 and 2017

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### **EQUITY ACCOUNTED INVESTMENT (CONTINUED)**

#### *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 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 and obtained a drilling permit for its Trava-2 exploration well. The Trava-2 well, located in the southern half of Corte dei Signori, received final approvals from the Ministry and UNMIG Bologna on June 8, 2016. The Trava 2D commenced drilling on February 24, 2017 and was directionally drilled from a surface location which minimized environmental impact yet allows for drilling of multiple wells from the same surface pad. The bottom hole location targeted a prominent amplitude imaged by 3D seismic up structure of an unsuccessful 2003 dry hole, Trava 1 well, drilled by the previous permit holder. The Trava 2D was 49 ft (15 m) structurally up dip as anticipated and found significantly better reservoir rock properties than Trava 1 well, which was drilled using only 2D seismic data.

The Trava 2D tested at rates up to 1.89 million cubic feet (MMcf) per day (53,500 scm), with bottom hole pressures exceeding 1,700 psi (114 bars). A PTL log verified gas flow from only an upper interval of Pliocene age Porto Garibaldi PL-2 sand while lower intervals also perforated were still unloading completion fluids as evidenced by consistently increasing gas rates and flowing tubing pressures. The Trava 2D well has been shut in and AleAnna immediately filed documentation for government approval of a production concession permit. Additional development wells will be needed to fully develop the field area.

#### *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 1/4-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.

## BRS Resources Ltd.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Periods ended January 31, 2018 and 2017

### EQUITY ACCOUNTED INVESTMENT (CONTINUED)

The Company, through its membership interest in AleAnna Energy's wholly owned subsidiary, AleAnna Resources LLC, and newly formed AleAnna Europa SRL, has completed the acquisition of all of the Italian assets in the upstream gas sector held by ENEL, through ENEL's wholly owned subsidiary, ENEL Longanesi Developments SRL (ELD).

AleAnna Europa acquired 100 percent of the quota shares of ELD. ELD is the holder of 21 applications and permits for onshore gas exploration and offshore gas exploration in Italy. ELD was renamed AleAnna Italia SRL. The maximum consideration for the sale is \$30 million euros, of which a portion (approximately \$7 million euros) was paid at closing, while additional deferred consideration will be earned after the Longanesi gas field in Emilia Romagna enters into production but the exact amount of that consideration will fluctuate with natural gas prices.

#### *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 10%, and subsequent capital calls in 2016 have lowered the ownership to less than 9%.

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

The Company accounts for Bonanza Resources interest in AleAnna using the cost method. During the period ended January 31, 2018, the Company recognized \$nil impairment.

An impairment test is performed if the Company identifies an indicator of impairment. At October 31, 2017, 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 periods ended January 31, 2018 and October 31, 2017:

|                                  | January 31,<br>2018 | October 31,<br>2017 |
|----------------------------------|---------------------|---------------------|
| Carry value, beginning of period | \$ 1,787,744        | 2,973,899           |
| Impairment                       | -                   | (1,186,155)         |
| Carry value, end of period       | \$ 1,787,744        | 1,787,744           |

## BRS Resources Ltd.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Periods ended January 31, 2018 and 2017

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#### EQUITY ACCOUNTED INVESTMENT (CONTINUED)

The following table summarizes financial information about AleAnna's assets and liabilities and the net and comprehensive loss for the periods ending January 31, 2018 and October 31, 2017. 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 and are presented at their respective ownership percentage.

|                      |    | <u>January 31, 2018</u> | <u>October 31, 2017</u> |
|----------------------|----|-------------------------|-------------------------|
| Assets               | \$ | 4,769,823               | \$ 4,847,307            |
| Liabilities          |    | 1,099,040               | 1,108,358               |
| Net Loss             |    | 62,391                  | 745,893                 |
| Ownership percentage |    | 8.08%                   | 8.48%                   |

#### 4. EQUIPMENT

| <b>Office Equipment</b>   | <b>Cost</b> | <b>Depreciation</b> | <b>Net Book value</b> |
|---------------------------|-------------|---------------------|-----------------------|
| Balances October 31, 2016 | \$ 12,758   | \$ 12,614           | \$ 144                |
| Additions                 | -           | 144                 | (144)                 |
| Balances January 31, 2017 | 12,758      | 12,758              | -                     |
| Additions                 | 1,919       | 96                  | 1,679                 |
| Balances October 31, 2017 | 14,677      | 12,854              | 1,679                 |
| Additions                 | -           | 96                  | 96                    |
| Balance January 31, 2018  | \$ 14,677   | \$ 12,950           | \$ 1,727              |

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Periods ended January 31, 2018 and 2017

**5. SHARE CAPITAL**

*Common Shares*

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

|                              | January 31, 2018 |               | October 31, 2018 |               |
|------------------------------|------------------|---------------|------------------|---------------|
|                              | Number           | Amount        | Number           | Amount        |
| Balance, beginning of period | 130,428,946      | \$ 34,209,418 | 124,878,946      | \$ 34,058,842 |
| Shares issued for cash       | -                | -             | 5,550,000        | 166,501       |
| Share issuance cost          | -                | -             | -                | (15,925)      |
| Balance, end of period       | 130,428,946      | \$ 34,209,418 | 130,428,946      | \$ 34,209,418 |

On September 6, 2016 the Company completed a non-brokered private placement of 3,000,000 units at \$0.03 per unit for aggregate gross proceeds of \$90,000. Each unit was comprised of one common share of the Company and on additional share purchase warrant, with each warrant exercisable into one additional share at \$0.06 per share until September 6, 2018.

On July 28, 2017 the Company completed a brokered private placement of 5,550,000 units at \$0.03 per unit for aggregate gross proceeds of \$166,500. Each unit was comprised of one common share of the Company and on additional share purchase warrant, with each warrant exercisable into one additional share at \$0.10 per share until July 31, 2020. In connection with the private placement, the Company paid finder's fees to 2 finders, comprised of: cash, \$15,925.

*Warrants*

A summary of the Company's issue and outstanding warrants at January 31, 2018 and October 31, 2017 with changes during those periods is presented below:

|                              | January 31, 2018     |                | October 31, 2017     |                |
|------------------------------|----------------------|----------------|----------------------|----------------|
|                              | Warrants outstanding | Exercise Price | Warrants outstanding | Exercise Price |
| Balance, beginning of period | 8,550,000            | \$ 0.08        | 3,000,000            | \$ 0.06        |
| Shares issued for cash       | -                    | -              | 5,550,000            | 0.10           |
| Shares issued for debt       | -                    | -              | -                    | -              |
| Balance, end of period       | 8,550,000            | 0.08           | 8,550,000            | 0.08           |

**6. CONTRIBUTED SURPLUS**

|                              | January 31,<br>2018 | October 31,<br>2017 |
|------------------------------|---------------------|---------------------|
| Balance, beginning of period | \$ 3,073,187        | 2,962,187           |
| Shares issues for cash       | -                   | 111,000             |
| Balance, end of period       | \$ 3,073,187        | 3,073,187           |

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Periods ended January 31, 2018 and 2017

**7. STOCK BASED COMPENSATION**

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

The maximum number of shares which may be issued pursuant to options granted under the plan shall be 10,534,525 shares or such additional amount as may be approved from time to time by the shareholders of the Company. The maximum number of options granted to any one optionee in a 12 month period is limited to 5% of the issued shares of the Company.

At January 31, 2018, there are options outstanding to acquire the company of 3,000,000. The price of the options is \$0.10 and their expiry date is May 7, 2018. The weighted average contract life remaining is 2.08 years.

The following is a summary of the change in the Company's stock option plan for the period ended January 31, 2018 and October 31, 2017.

|                                   | January 31, 2018 |         | October 31, 2017 |         |
|-----------------------------------|------------------|---------|------------------|---------|
|                                   | Number           | Amount  | Number           | Amount  |
| Balance, beginning of period      | 3,000,000        | \$ 0.10 | 4,555,000        | \$ 0.17 |
| Options expired during the period |                  |         | (1,555,000)      | 0.30    |
| Balance, end of period            | 3,000,000        | \$ 0.10 | 3,000,000        | \$ 0.10 |

The intrinsic value of options exercisable at January 31, 2018 is nil.

The following table summarizes the information about stock options outstanding and exercisable at January 31, 2018;

| Weighted<br>Average Exercise<br>Price per Share | Number<br>Outstanding<br>January 31, 2018 | Weighted<br>Average Remaining<br>Contract Life |
|---|---|--|
| \$0.10  | 3,000,000                                 | 2.08   |

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. No options were granted during the periods ended January 31, 2018 and October 31, 2017.

**8. LOSS PER SHARE**

Net income (loss) per share is calculated using the weighted average number of common shares outstanding during the period. There were no potentially dilutive shares at January 31, 2018 and October 31, 2017.

**9. COMMITMENTS AND CONTINGENCIES**

The Company has no commitments or contingent liabilities.

**BRS Resources Ltd.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Periods ended January 31, 2018 and 2017

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**10. RELATED PARTY TRANSACTIONS**

All transactions with related parties have occurred in the normal course of operations and are measured at their fair value as determined by management. The balances referred to below are non-interest bearing, unsecured, payable on demand and have arisen from advances or the provision of services as described.

During the period ended January 31, 2018, the Company advanced a director \$39,269 (2017 \$0) to the company for consulting services. The company owed the director \$ nil as of January 31, 2018, (2017 \$5,000).

During the period ended January 31, 2018, the Company charged \$nil management fee (2017-\$0) to AleAnna Resources, of which \$nil was eliminated in consolidation (2017-\$0).