



**FINANCIAL STATEMENTS**  
**FOR THE**  
**THREE AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2011**  
**(UNAUDITED)**

**NOTICE OF NO AUDITOR REVIEW**

Pursuant to National Instrument 51-102, Part 4, subsection 4.3(3)(a), the accompanying unaudited interim financial statements have been prepared by management and the Corporation's independent auditors have not performed a review of these financial statements.

# RELENTLESS RESOURCES LTD.

## CONDENSED INTERIM STATEMENTS OF FINANCIAL POSITION

(Unaudited)

(\$ thousands)

	Note	September 30, 2011	December 31, 2010
<b>Assets</b>			
Current assets:			
Cash		\$ 238	\$ 1,386
Accounts receivable		283	131
Deposits and prepaid expenses		24	16
Total current assets		545	1,533
Non-current assets:			
Exploration and evaluation assets	5	640	575
Property and equipment	6	2,645	907
Total non-current assets		3,285	1,482
Total assets		\$ 3,830	\$ 3,015
<b>Liabilities</b>			
Current Liabilities:			
Accounts payable and accrued liabilities		\$ 703	\$ 181
Flow-through liability	8	-	100
Total current liabilities		703	281
Non-current liabilities:			
Decommissioning obligations	9	244	194
Total non-current liabilities		244	194
Total liabilities		947	475
<b>Shareholders' Equity</b>			
Share capital	10	5,511	5,488
Contributed surplus		654	464
Deficit		(3,282)	(3,412)
Total shareholders' equity		2,883	2,540
Total liabilities and shareholders' equity		\$ 3,830	\$ 3,015

The notes are an integral part of these condensed interim financial statements.

# RELENTLESS RESOURCES LTD.

## CONDENSED INTERIM STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

For the three and nine months ended September 30, 2011, with comparative figures for September 30, 2010

(\$ thousands, except per share amounts)

	Note	Three Months		Nine Months	
		2011	2010	2011	2010
<b>REVENUE</b>					
Oil and natural gas revenue		\$ 696	\$ 141	\$ 1,038	\$ 362
Royalties		(37)	(9)	(109)	(6)
		659	132	929	356
<b>EXPENSES</b>					
Operating expenses		123	52	247	137
Depletion and depreciation		53	108	131	215
General administration		83	96	323	314
Share based compensation	11	-	-	198	-
		259	256	899	666
Results from operating activities		400	(124)	30	(310)
Gain on sale of resource property		-	-	-	203
Finance income		1	-	5	14
Finance expense		(1)	(12)	(4)	(34)
Flow-through share income	8	-	-	100	-
Net finance income (expense)		-	(12)	101	183
Comprehensive income (loss)		\$ 400	\$ (136)	\$ 131	\$ (127)
Income (loss) per share:	12				
Basic and diluted		\$ 0.02	\$ (0.01)	\$ 0.01	\$ (0.01)

The notes are an integral part of these condensed interim financial statements

# RELENTLESS RESOURCES LTD.

## CONDENSED INTERIM STATEMENTS OF CHANGES IN EQUITY

(Unaudited)

(\$ thousands)

	Note	Number of common shares	Share capital	Contributed surplus	Deficit	Total equity
Balance at January 1, 2011		24,172,585	\$ 5,488	\$ 464	\$ (3,413)	\$ 2,540
Share based compensation expensed	11	–	–	198	–	198
Options exercised	10	145,000	23	(8)	–	15
Income (Loss) for the period		–	–	–	131	131
<b>Balance at September 30, 2011</b>		<b>24,317,585</b>	<b>\$ 5,511</b>	<b>\$ 654</b>	<b>\$ (3,282)</b>	<b>\$ 2,883</b>
Balance at January 1, 2010		11,839,250	\$ 3,230	\$ 410	\$ (3,339)	\$ 301
Shares issued	10	3,000,000	290	–	–	290
Income for the period		–	–	–	(127)	127
<b>Balance at September 30, 2010</b>		<b>14,839,250</b>	<b>\$ 3,520</b>	<b>\$ 410</b>	<b>\$ (3,466)</b>	<b>\$ 464</b>

The notes are an integral part of these condensed interim financial statements.

# RELENTLESS RESOURCES LTD.

## CONDENSED INTERIM STATEMENTS OF CASH FLOWS

(Unaudited)

For the three and nine months ended September 30, 2011, with comparative figures for

September 30, 2010

(\$ thousands)

	Note	Three Months		Nine Months	
		2011	2010	2011	2010
Cash flows from operating activities:					
Comprehensive income (loss) for the period		\$ 400	\$(136)	\$ 131	\$ 246
Adjustments for:					
Depletion and depreciation		53	108	131	183
Non-cash finance expenses		1	1	4	42
Share based compensation expense	11	-	-	198	-
Gain on sale of resource property		-	-	-	(551)
Flow-through share income	8	-	-	(100)	-
Changes in non-cash working capital	13	460	(94)	263	(258)
Net cash from (used in) operating activities		914	(121)	627	(338)
Cash flows used in investing activities:					
Proceeds on sale of resource properties		-	-	-	1,237
Capital expenditures – property and equipment	6	(1836)	(41)	(1838)	(1)
Capital expenditures – exploration and evaluation	5	1418	-	26	(447)
Change in non-cash working capital	13	(690)	-	(1)	-
Net cash from (used in) investing activities		(1,108)	(41)	(1,813)	789
Cash flows from financing activities:					
Repayment of loans and borrowings		-	(115)	-	(745)
Issuance of common shares	10	-	-	23	290
Proceeds from exercise of share options	10	-	-	15	-
Net cash from (used in) financing activities		-	(115)	38	(455)
Change in cash		(194)	(277)	(1148)	(4)
Cash, beginning of period		432	277	1,386	4
Cash, end of period		\$ 238	\$ -	\$ 238	\$ -

The notes are an integral part of these condensed interim financial statements

# RELENTLESS RESOURCES LTD.

Notes to the Condensed Interim Financial Statements, page 1

*(Unaudited)*

For the three and nine months ended September 30, 2011, with comparative figures for 2010

*(tabular amounts are in \$ thousands, except share and per share amounts)*

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## 1. Reporting entity:

Relentless Resources Ltd. (“Relentless” or “the Company”) is engaged in the exploration for, development and production of oil and natural gas reserves in the provinces of Alberta and Saskatchewan. The Company conducts many of its activities jointly with others and these financial statements reflect only Relentless’ proportional interests in such activities. Relentless was incorporated under the provisions of the Business Corporations Act (Alberta) on April 7, 2004 as Open Range Capital Corp. and became New Range Resources Ltd. on March 30, 2006 upon the amalgamation with Open Range Resources Ltd., a private company related by way of common control. The Company began trading on October 14, 2004 and traded under the symbol of RGE on the TSX Venture Exchange. Effective June 9, 2010, the Company changed its name to Relentless Resources Ltd. On June 11, 2010, the common shares began trading under the stock symbol RRL on the TSX Venture Exchange. Relentless’ head office is located at 855, 700 – 4<sup>th</sup> Avenue SW, Calgary, Alberta.

## 2. Basis of preparation:

### (a) Statement of compliance:

The Company prepares its financial statements in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants (“CICA Handbook”). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards (“IFRS”), and require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Company commenced reporting on this basis in its 2011 interim financial statements. In these financial statements, the term “Canadian GAAP” refers to Canadian GAAP before the adoption of IFRS.

These condensed interim financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including International Accounting Standard (“IAS”) 34, “Interim Financial Reporting” and IFRS 1, “First-time Adoption of International Financial Reporting Standards”. The accounting policies followed in these interim financial statements are the same as those applied in the Company’s interim financial statements for the period ended March 31, 2011. The Company has consistently applied the same accounting policies throughout all periods presented, as if these policies had always been in effect. The impact of the new standards, including reconciliations presenting the change from pre-changeover Canadian GAAP to IFRS for the Nine months ended September 30, 2010, and as at and for the year ended December 31, 2010, is presented in note 15. These condensed interim financial statements do not include all of the information required for full annual financial statements.

Relentless’ significant accounting policies under IFRS are presented in note 3. These policies have been retrospectively and consistently applied except where specific exemptions permitted an alternative treatment upon transition to IFRS in accordance with IFRS 1. These condensed interim financial statements should be read in conjunction with the Company’s

# RELENTLESS RESOURCES LTD.

Notes to the Condensed Interim Financial Statements, page 2

*(Unaudited)*

For the three and Nine months ended September 30, 2011, with comparative figures for 2010

*(tabular amounts are in \$ thousands, except share and per share amounts)*

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## 2. Basis of preparation (continued):

Canadian GAAP annual financial statements for the year ended December 31, 2010 and the Company's condensed interim financial statements for the quarter ended March 31, 2011 prepared in accordance with IFRS applicable to condensed interim financial statements.

These condensed interim financial statements were authorized for issuance by the Board of Directors on November 28, 2011.

### (b) Basis of measurement:

The condensed interim financial statements have been prepared on the historical cost basis except as disclosed in note 4.

### (c) Functional and presentation currency:

These condensed interim financial statements are presented in Canadian dollars, which is the Company's functional currency.

### (d) Use of estimates and judgments:

The preparation of 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 and liabilities as at the date of the condensed interim financial statements and the amounts of revenue and expenses during the period. By their nature, estimates are subject to measurement uncertainty and changes in such estimates in future periods could require a material change in the condensed interim financial statements. Accordingly, actual results may differ from these estimates as future events occur. Accounts specifically affected by estimates in these condensed interim financial statements are accounts receivable, property and equipment, accounts payable and accrued liabilities, decommissioning obligations, deferred tax liabilities, depletion and depreciation and share based compensation.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Reserve estimates impact a number of the areas referred to above in particular, the valuation of property and equipment and the calculation of depletion and depreciation.

# RELENTLESS RESOURCES LTD.

Notes to the Condensed Interim Financial Statements, page 3  
(Unaudited)

For the three and Nine months ended September 30, 2011, with comparative figures for 2010

*(tabular amounts are in \$ thousands, except share and per share amounts)*

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### 3. Significant accounting policies:

The accounting policies set out below have been applied consistently to all periods presented in these condensed interim financial statements unless otherwise indicated.

In addition to the quantitative adjustments from previous GAAP to IFRS, certain comparative amounts have been reclassified to conform to the current period's presentation as presented in note 15.

(a) Jointly controlled operations and jointly controlled assets:

Many of the Company's oil and natural gas activities involve jointly controlled assets. The condensed interim financial statements include the Company's share of these jointly controlled assets and a proportionate share of the relevant revenue and related costs.

(b) Financial instruments:

Financial instruments comprise cash, accounts receivable, bank debt, loans payable, and accounts payable and accrued liabilities. Non-derivative financial instruments are recognized initially at fair value plus any directly attributable transaction costs.

Subsequent to initial recognition the Company's non-derivative financial instruments are measured at amortized cost using the effective interest rate method, less any impairment losses.

(c) Property and equipment and exploration and evaluation assets:

(i) Initial recognition:

Exploration and evaluation expenditures:

Pre-license costs are recognized in the statement of comprehensive income as incurred.

Once the legal right to explore a resource property has been obtained, exploration and evaluation costs, including the costs of acquiring undeveloped land and drilling costs are initially capitalized until the drilling of the well is complete and the results have been evaluated. The costs are accumulated in cost centres by well, field or exploration area pending determination of technical feasibility and commercial viability. The technical feasibility and commercial viability of extracting a mineral resource is considered to be determinable when proved or probable reserves are determined to exist. Upon determination of proved and or probable reserves, drilling costs, geological and geophysical costs and associated undeveloped land value attributable to those reserves are first tested for impairment and then transferred from exploration and evaluation assets to property and equipment.

Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For



# RELENTLESS RESOURCES LTD.

Notes to the Condensed Interim Financial Statements, page 4  
(Unaudited)

For the three and Nine months ended September 30, 2011, with comparative figures for 2010

*(tabular amounts are in \$ thousands, except share and per share amounts)*

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## 3. Significant accounting policies (continued):

purposes of impairment testing, exploration and evaluation assets are allocated to cash-generating units ("CGU's").

### (c) Property and equipment and exploration and evaluation assets (continued):

#### (i) Development and production costs:

Items of property and equipment, which include oil and natural gas development and production assets, are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. The cost of development and production assets includes; transfers from exploration and evaluation assets, the cost to complete and tie-in the wells; facility costs; the cost of recognizing provisions for future decommissioning; and geological and geophysical costs.

When significant parts of an item of property and equipment, including oil and natural gas interests, have different useful lives, they are accounted for as separate items (major components). Development and production assets are grouped into CGU's for impairment testing. The Company has grouped its development and production assets into the following CGUs by area: Eyremore, Hays, Niton, Gordondale, Herronton, Lodgepole and Pembina.

Gains and losses on disposal of an item of property and equipment, including oil and natural gas interests, are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognized net within "other income" or "other expenses" in the statement of net and comprehensive loss.

#### (ii) Subsequent costs:

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of property and equipment are recognized as oil and natural gas interests only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in earnings as incurred. Such capitalized oil and natural gas interests generally represent costs incurred in developing proved and/or probable reserves and bringing in or enhancing production from such reserves, and are accumulated on a field or geotechnical area basis. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in operating expenses as incurred.

# RELENTLESS RESOURCES LTD.

Notes to the Condensed Interim Financial Statements, page 5

*(Unaudited)*

For the three and Nine months ended September 30, 2011, with comparative figures for 2010

*(tabular amounts are in \$ thousands, except share and per share amounts)*

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### 3. Significant accounting policies (continued):

(c) Property and equipment and exploration and evaluation assets (continued):

(iii) Depletion and depreciation:

The net carrying value of development and production assets is depleted using the unit of production method by reference to the ratio of production in the period to the related proven and probable reserve volumes, taking into account estimated future development costs necessary to bring those reserves into production. Future development costs are estimated taking into account the level of development required to produce the reserves. These estimates are reviewed by independent qualified reserve evaluators at least annually.

Proved and probable reserves are estimated using independent qualified reserve evaluators reports and represent the estimated quantities of crude oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible. There should be at least a 50 percent statistical probability that the actual quantity of recoverable reserves will be more than the amount estimated as proved and probable. The equivalent statistical probability for the proved component of proved and probable reserves is 90 percent.

Such reserves may be considered commercially producible if management has the intention of developing and producing them and such intention is based upon:

- a reasonable assessment of the future economics of such production;
- a reasonable expectation that there is a market for all or substantially all the expected oil and natural gas production; and
- evidence that the necessary production, transmission and transportation facilities are available or can be made available.

# RELENTLESS RESOURCES LTD.

Notes to the Condensed Interim Financial Statements, page 6

*(Unaudited)*

For the three and Nine months ended September 30, 2011, with comparative figures for 2010

*(tabular amounts are in \$ thousands, except share and per share amounts)*

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### 3. Significant accounting policies (continued):

(d) Leased assets:

Operating leases are not recognized on the Company's statement of financial position.

Payments made under operating leases are recognized in the statement of comprehensive income on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

(e) Impairment:

(i) Financial assets:

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognized in the statement of net and comprehensive loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in the statement of net and comprehensive loss.

(ii) Non-financial assets:

The carrying amounts of the Company's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Exploration and evaluation ("E&E") assets are assessed for impairment when they are reclassified to property and equipment, as oil and natural gas interests, and also if facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

# RELENTLESS RESOURCES LTD.

Notes to the Condensed Interim Financial Statements, page 7  
(Unaudited)

For the three and Nine months ended September 30, 2011, with comparative figures for 2010

*(tabular amounts are in \$ thousands, except share and per share amounts)*

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## 3. Significant accounting policies (continued):

### (e) Impairment (continued):

#### (ii) Non-financial assets (continued):

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" or "CGU"). The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs to sell.

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. Value in use is generally computed by reference to the present value of the future cash flows expected to be derived from production of proven and probable reserves. In assessing fair value less costs to sell, reliable third party metrics are used to determine the price the Company could expect to receive in the market for the properties, less 1.5% for selling costs.

E&E assets are allocated to related CGU's when they are assessed for impairment, both at the time of any triggering facts and circumstances as well as upon their reclassification to producing assets (oil and natural gas interests in property and equipment).

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation, if no impairment loss had been recognized.

# RELENTLESS RESOURCES LTD.

Notes to the Condensed Interim Financial Statements, page 8  
(Unaudited)

For the three and Nine months ended September 30, 2011, with comparative figures for 2010

*(tabular amounts are in \$ thousands, except share and per share amounts)*

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### 3. Significant accounting policies (continued):

(f) Share based compensation:

The grant date fair value of stock options granted to employees, as measured by use of the Black-Scholes valuation model, is recognized over the vesting period as compensation expense with a corresponding increase in contributed surplus. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that vest. Upon the exercise of the stock options, the previously recognized value in contributed surplus is recorded as an increase to share capital.

When equity instruments are granted to non-employees, the fair value is measured at the fair value of the goods or services received. When the value of goods or services cannot be reliably estimated, the fair value of the compensation is measured using the Black-Scholes model.

(g) Provisions:

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Provisions are not recognized for future operating losses.

(i) Decommissioning obligations:

The Company's activities give rise to dismantling, decommissioning and site disturbance re-mediation activities. Provision is made for the estimated cost of site restoration and capitalized in the relevant asset category.

Decommissioning obligations are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the statement of financial position date. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as finance costs whereas increases/decreases due to changes in the estimated future cash flows are capitalized. Actual costs incurred upon settlement of the decommissioning obligations are charged against the provision to the extent the provision was established.

# RELENTLESS RESOURCES LTD.

Notes to the Condensed Interim Financial Statements, page 9

*(Unaudited)*

For the three and Nine months ended September 30, 2011, with comparative figures for 2010

*(tabular amounts are in \$ thousands, except share and per share amounts)*

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### 3. Significant accounting policies (continued):

(h) Revenue:

Revenue from the sale of oil and natural gas is recorded when the significant risks and rewards of ownership of the product are transferred to the buyer which is usually when legal title passes to the external party.

Royalty income is recognized as it accrues in accordance with the terms of the overriding royalty agreements.

(i) Finance income and expenses:

Finance expense comprises interest expense on borrowings, accretion of the discount on provisions and impairment losses recognized on financial assets.

Interest income is recognized as it accrues in the statement of comprehensive income, using the effective interest method.

(j) Income tax:

Income tax expense is comprised of current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

Deferred tax assets and liabilities are recognized for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which unused tax losses, tax credit and deductible temporary differences can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(k) Income (loss) per share:

Basic income (loss) per share is calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted income (loss) per share is determined by adjusting loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of dilutive instruments such as options granted to employees.

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Notes to the Condensed Interim Financial Statements, page 10  
(Unaudited)

For the three and Nine months ended September 30, 2011, with comparative figures for 2010

*(tabular amounts are in \$ thousands, except share and per share amounts)*

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### 3. Significant accounting policies (continued):

(l) Flow-through shares:

The Company will, from time to time, issue flow-through common shares to finance a portion of its exploration and development program. Pursuant to the terms of the flow-through share agreements, these shares transfer the tax deductibility of qualifying resource expenditures to investors. On issuance, the Company bifurcates the flow-through into i) share capital, and ii) a flow-through liability, equal to the estimated premium, if any, investors pay for the flow-through feature. Once related expenditures are incurred, the premium is recognized as other income. At this time, the Company also recognizes a deferred tax liability and tax provision at the enacted or substantively enacted tax rate, for the tax pool reduction renounced to the shareholders.

Proceeds received from the flow-through issue are restricted to be used only for Canadian resource property exploration expenditures within a two year period. The Company may also be subject to a PartXII.6 tax on flow-through proceeds renounced under the Look-back Rule, in accordance with Government of Canada flow-through regulations. When applicable this tax is accrued as a financial liability until paid.

(m) New standards and interpretations not yet effective:

The Company has early adopted the amendments to IFRS 1 "First-time adoption of International Financial Reporting Standards" which replaces the references to a fixed date of "January 1, 2004" with "the date of transition to IFRS". This eliminates the need for the Company to restate derecognition transactions that occurred before the date of transition to IFRS. The amendment is effective for year-ends beginning on or after July 1, 2011; however, the Company has early adopted the amendment. The impact of the amendment and early adoption is that the Company only applies International Accounting Standards ("IAS") 39 derecognition requirements to transactions that occurred after the date of transition.

In November 2009, the International Accounting Standards Board ("IASB") published IFRS 9, "Financial Instruments," which covers the classification and measurement of financial assets as part of its project to replace IAS 39, "Financial Instruments: Recognition and Measurement." In October 2010, the requirements for classifying and measuring financial liabilities were added to IFRS 9. Under the guidance, entities have the option to recognize financial liabilities at fair value through earnings. If this option is elected, entities would be required to reverse the portion of the fair value change due to a company's own credit risk out of earnings and recognize the change in other comprehensive income. IFRS 9 is effective for the Company on January 1, 2013. Early adoption is permitted and the standard is required to be applied retrospectively. The Company is currently evaluating the impact of adopting IFRS 9.

# RELENTLESS RESOURCES LTD.

Notes to the Condensed Interim Financial Statements, page 11  
(Unaudited)

For the three and Nine months ended September 30, 2011, with comparative figures for 2010

*(tabular amounts are in \$ thousands, except share and per share amounts)*

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### 3. Significant accounting policies (continued):

(m) New standards and interpretations not yet effective (continued):

IFRS 10, Consolidation, requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12, Consolidation – Special Purpose Entities and parts of IAS 27, Consolidated and Separate Financial Statements.

IFRS 11, Joint Arrangements, requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interest in joint ventures. IFRS 11 supersedes IAS 31, Interest in Joint Ventures, and SIC-13, Jointly Controlled Entities – Non-monetary Contributions by Venturers.

IFRS 12, Disclosure of Interest in Other Entities, establishes disclosure requirements for interest in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, and entity's interest in other entities.

IFRS 13, Fair Value Measurement, is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures.

In addition, there have been amendments to existing standards, including IAS 27, Separate Financial Statements, and IAS 28, Investments in Associates and Joint Ventures. IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 to 13.

These standards are required to be applied for accounting periods beginning on or after January 1, 2013, with earlier adoption permitted. The Company has not yet assessed the impact of these standards or determined whether it will adopt the standards early.



# RELENTLESS RESOURCES LTD.

Notes to the Condensed Interim Financial Statements, page 12

*(Unaudited)*

For the three and Nine months ended September 30, 2011, with comparative figures for 2010

*(tabular amounts are in \$ thousands, except share and per share amounts)*

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## 4. Determination of fair values:

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

### (i) Property and equipment and exploration and evaluation assets:

The fair value of property and equipment and exploration and evaluation assets recognized in a business combination, is based on market values. The market value of property and equipment and exploration and evaluation assets is the estimated amount for which the assets could be exchanged on the acquisition date between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of oil and natural gas interests (included in property and equipment) and intangible exploration assets is estimated with reference to the discounted cash flows expected to be derived from oil and natural gas production based on externally prepared reserve reports. The risk-adjusted discount rate is specific to the asset with reference to general market conditions.

The market value of other items of property and equipment is based on the quoted market prices for similar items.

### (ii) Cash, accounts receivable, accounts payable and accrued liabilities and bank debt:

The fair value of cash, accounts receivable, accounts payable and accrued liabilities and bank debt is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. At September 30, 2011 and December 31, 2010, the fair value of these balances approximated their carrying value due to their short term to maturity.

### (iii) Stock options:

The fair value of employee stock options is measured using a Black-Scholes option pricing model. Measurement inputs include share price on the measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds).

# RELENTLESS RESOURCES LTD.

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(Unaudited)

For the three and Nine months ended September 30, 2011, with comparative figures for 2010

(tabular amounts are in \$ thousands, except share and per share amounts)

## 5. Exploration and evaluation assets:

	Total
Cost:	
Balance at January 1, 2010	\$ -
Acquisitions	575
Balance at December 31, 2010	575
Additions	1,470
Decommissioning obligation provision	37
Transfer to producing property	(1,442)
Balance at September 30, 2011	\$ 640

At December 31, 2010 and September 30, 2011, no impairment has been recognized on the exploration and evaluation assets.

## 6. Property and equipment:

	Total
Cost or deemed cost:	
Balance at January 1, 2010	\$ 2,015
Additions	380
Disposals	(1,117)
Balance at December 31, 2010	1,278
Change in decommissioning obligations	9
Additions	1,860
Balance at September 30, 2011	\$ 3,147
Accumulated depletion and depreciation:	
Balance at January 1, 2010	\$ -
Depletion and depreciation	(235)
Impairment	(136)
Balance at December 31, 2010	(371)
Depletion and depreciation	(131)
Balance at September 30, 2011	\$ (502)

# RELENTLESS RESOURCES LTD.

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(Unaudited)

For the three and Nine months ended September 30, 2011, with comparative figures for 2010

*(tabular amounts are in \$ thousands, except share and per share amounts)*

## 6. Property and equipment (continued):

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	Total
Net book value:	
At January 1, 2010	\$ 2,015
At December 31, 2010	\$ 907
At September 30, 2011	\$ 2,645

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### (a) Security:

At January 1, 2010, December 31, 2010, and September 30, 2011 all of the Company's properties are pledged as security for the bank debt.

### (b) Contingencies:

Although the Company believes that it has title to its oil and natural gas properties, it cannot control or completely protect itself against the risk of title disputes or challenges.

### (c) Impairments:

At December 31, 2010 as a result of decreasing natural gas prices, Relentless recognized an impairment of \$136,412 relating to the Company's Eyremore, Hays and Niton CGU's. The impairment charge was recorded as additional depletion and depreciation expense. The impairment was based on the difference between the period end net book value of the assets and the recoverable amount. The recoverable amount was determined using fair value less cost to sell based on discounted cash flows of proved plus probable reserves using forecast prices and costs and a discount rate of 10 percent.

## 7. Bank debt:

As at December 31, 2010 and September 30, 2011, the Company had a \$275,000 demand operating loan facility, subject to the banks' semi-annual review of the Company's petroleum and natural gas properties. The facility is available until October 31, 2011 at which time it may be extended, at the lenders option. As at the date the directors approved these condensed interim financial statements the agreement is under review. Interest payable on amounts drawn under the facility is at the lenders' prime rate plus 1.75 percent. The credit facility is secured by a general security agreement and a first ranking charge on all lands of the Company.

# RELENTLESS RESOURCES LTD.

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(Unaudited)

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## 8. Flow-through share liability

	Total
Balance at January 1, 2010	\$ -
Liability incurred on flow-through shares issued	100
Balance at December 31, 2010	100
Settlement of flow-through share liability on incurring expenditures	(100)
Balance at September 30, 2011	\$ -

On December 22, 2010, the Company completed a private placement of 3,333,335 common shares on a "flow-through basis" at a price of \$0.30 per share for total proceeds of \$1,000,000. Finder's fees of \$81,895 were recorded as share issuance costs, \$76,912 of which was paid in cash and \$4,983 which relates to finder's warrants issued, see note 11.

## 9. Provisions – decommissioning obligations:

The following reconciles the Company's decommissioning obligations:

	Total
Balance at January 1, 2010	\$ 626
Accretion	9
Decommissioning liability disposed	(531)
Decommissioning liability acquired	90
Balance at December 31, 2010	\$ 194
Change in liability estimate	9
Accretion	4
Decommissioning liability incurred	37
Balance at September 30, 2011	\$ 244

# RELENTLESS RESOURCES LTD.

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(Unaudited)

For the three and Nine months ended September 30, 2011, with comparative figures for 2010

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## 9. Provisions – decommissioning obligations (continued):

The Company's decommissioning obligations result from its ownership interest in oil and natural gas assets including well sites and gathering systems. The total decommissioning obligation is estimated based on the Company's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon these wells and facilities and the estimated timing of the costs to be incurred in future years. The total undiscounted amount of the estimated cash flows required to settle the decommissioning obligations is approximately \$249,222 which will be incurred over the next 25 years with the majority of costs to be incurred between 2013 and 2020. An average risk-free rate of 2.7 percent (2010 - 2.5 percent) and an inflation rate of 2.125 percent were used to calculate the net present value of the decommissioning obligations.

## 10. Share capital:

An unlimited number of voting common shares may be authorized and issued.

The holders of common shares are entitled to receive dividends as declared by the Company and are entitled to one vote per share. All common shares are of the same class with equal rights and privileges.

The following summarizes the share capital activity:

	Number of Shares	Issue Price	Amount
Balance at January 1, 2010	23,678,500		\$ 3,230
Shares issued via private placement	6,000,000	\$ 0.05	300
Share consolidation	(14,839,250)	-	-
Shares issued via private placement	5,500,000	0.20	1,100
Shares issued for purchase of property	500,000	0.10	50
Flow-through share issuance	3,333,335	0.30	1,000
Less flow-through liability			(100)
Less share issue costs			(92)
Balance at December 31, 2010	24,172,585		\$ 5,488
Issue of shares on exercise of options	145,000		23
Balance at September 30, 2011	24,317,585		\$ 5,511

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(Unaudited)

For the three and Nine months ended September 30, 2011, with comparative figures for 2010

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## 11. Share based payments:

### Stock options:

The Company has an option program that entitles officers, directors, employees and certain consultants to purchase shares in the Company. Options are granted at the market price of the shares at the date of grant, have a five year term and vest immediately.

The number and weighted average exercise prices of share options for the Nine months ended September 30, 2011 and the year ended December 31, 2010 are as follows:

	2011		2010	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at January 1	1,290,000	\$ 0.22	545,000	\$ 0.42
Expired during the period	(275,000)	0.50	-	0.50
Forfeited during the period	(50,000)	0.60	(187,500)	0.54
Exercised during the period	(145,000)	0.10	-	-
Granted during the period	900,000	0.30	932,500	0.10
Outstanding at period end	1,720,000	\$ 0.22	1,290,000	\$ 0.22
Exercisable at period end	1,720,000	\$ 0.22	1,290,000	\$ 0.22

The range of exercise prices of the outstanding options at September 30, 2011 is a follows:

Exercise price	Options outstanding	Weighted average contractual life (years)
\$0.60	42,500	0.5
\$0.10	787,500	4.2
\$0.31	100,000	4.5
\$0.30	800,000	4.8
\$0.10 to \$0.60	1,730,000	4.4

# RELENTLESS RESOURCES LTD.

Notes to the Condensed Interim Financial Statements, page 18  
(Unaudited)

For the three and Nine months ended September 30, 2011, with comparative figures for 2010

*(tabular amounts are in \$ thousands, except share and per share amounts)*

## 11. Share based payments (continued):

The fair value of the options granted was estimated using Black-Scholes model with the following weighted average inputs for the three and Nine months ended September 30:

	2011
Fair value at grant date	\$ 31
Share price	0.31
Exercise price	0.31
Volatility	88%
Option life	5 years
Dividends	-%
Risk-free interest rate	2.61%

The expected volatility rate is consistent with actual or peer based volatility rates. A forfeiture rate is not used when recording share based compensation as the options vest immediately. Share based compensation cost expensed during the three and Nine months ended September 30, 2011 was NIL and \$197,933 (2010 - \$nil), respectively.

### Finders warrants

In conjunction with the common shares issued on a "flow-through basis" on December 22, 2010, the Company issued a total of 58,578 finders warrants exercisable into common shares at a price of \$0.30 per share for a term of one year, expiring December 21, 2011. These warrants were valued using the Black-Scholes method as the fair value of the services received was not determinable. Using Black-Scholes, a fair value of \$4,912 has been recorded as share issue costs.

# RELENTLESS RESOURCES LTD.

Notes to the Condensed Interim Financial Statements, page 19  
(Unaudited)

For the three and Nine months ended September 30, 2011, with comparative figures for 2010

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## 12. Income (loss) per share:

Basic income (loss) per share was calculated as follows for the three and Nine months ended September 30:

	Three Months		Nine Months	
	2011	2010	2011	2010
Income (loss) for the period	\$ 400	\$ (136)	\$ 131	\$ (127)
Weighted average number of common shares (basic)				
Issued common shares at beginning of period	24,264,712	13,148,642	24,172,585	11,839,250
Issued common shares	-	-	-	3,000,000
Share options exercised	-	-	145,000	-
Effects of shares issued	-	-	(22,873)	(1,690,608)
Weighted average number of common shares – basic and diluted	24,264,712	13,148,642	24,264,712	13,148,642
Income (loss) per share – basic and diluted	\$ 0.02	\$ (0.01)	\$ 0.01	\$ (0.01)

Excluded from diluted income (loss) per share is the effect of stock options as their effect is anti-dilutive.

## 13. Supplemented cash flow information:

Changes in non-cash working capital for the three and Nine months ended September 30, is comprised of:

	Three Months		Nine Months	
	2011	2010	2011	2010
Source (use) of cash:				
Accounts receivable	\$ (102)	\$ (72)	\$ (152)	\$ 70
Deposits and prepaid expenses	1	46	(8)	1
Accounts payable and accrued liabilities	(129)	(68)	422	(329)
	\$ (230)	\$ (94)	\$ 262	\$ (258)
Related to operating activities	\$ 460	\$ (94)	\$ 263	\$ (258)
Related to investing activities	(690)	-	(1)	-



# RELENTLESS RESOURCES LTD.

Notes to the Condensed Interim Financial Statements, page 20  
(Unaudited)

For the three and Nine months ended September 30, 2011, with comparative figures for 2010

(tabular amounts are in \$ thousands, except share and per share amounts)

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	\$	(230)	\$	(94)	\$	262	\$	(258)
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## 14. Related party transactions:

The following is a summary of the Company's related party transaction during the period:

### Key Management Compensation

Key management personnel compensation for the Nine months ended September 30 comprised:

	2011	2010
Short term employee benefits and director fees	\$ 143	\$ 144
Share based payments	198	-
	<hr/>	<hr/>
	\$ 341	\$ 144

## 15. First Time Adoption of International Financial Reporting Standards

The Company's financial statements for the year-ending December 31, 2011 are the first annual financial statements that will be prepared in accordance with IFRS. IFRS 1, First Time Adoption of International Financial Reporting Standards, requires that comparative financial information be provided. As a result, the first date at which the Company has applied IFRS was January 1, 2010 (the "Transition Date"). IFRS 1 requires first-time adopters to retrospectively apply all effective IFRS standards as of the reporting date, which for the Company will be December 31, 2011. However, it also provides for certain optional exemptions and certain mandatory exceptions for first time IFRS adoption. Prior to transition to IFRS, the Company prepared its financial statements in accordance with pre-changeover Canadian Generally Accepted Accounting Principles ("pre-changeover Canadian GAAP").

In preparing the Company's opening IFRS financial statements, the Company has adjusted amounts reported previously in the financial statements prepared in accordance with pre-changeover Canadian GAAP.

### Optional Exemption

The IFRS 1 applicable exemptions and exceptions applied in the conversion from pre-changeover Canadian GAAP to IFRS are as follows:

### Business Combinations

The Company elected not to retrospectively apply IFRS 3 Business Combinations to any business combinations that may have occurred prior to its Transition Date and such business combinations have not been restated.

# RELENTLESS RESOURCES LTD.

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(Unaudited)

For the three and Nine months ended September 30, 2011, with comparative figures for 2010

*(tabular amounts are in \$ thousands, except share and per share amounts)*

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## **15. First Time Adoption of International Financial Reporting Standards (continued):**

### **Share based Payment Transactions**

The Company has elected not to retrospectively apply IFRS 2 to equity instruments that were granted and had vested before the Transition Date. As a result of applying this exemption, the Company will apply the provisions of IFRS 2 only to outstanding equity instruments that are unvested as at the Transition Date to IFRS.

### **Property and Equipment**

The Company has elected an IFRS 1 exemption whereby, upon transition to IFRS, oil and gas properties were measured as follows:

- i. Exploration and evaluation assets were reclassified from oil and gas properties as exploration and evaluation assets at the amount that was recorded under pre-changeover Canadian GAAP. Exploration and evaluation assets on transition are those unproved properties excluded from the full cost pool under pre-changeover Canadian GAAP; and
- ii. The remaining balance of oil and gas properties included in the Canadian GAAP full cost pool was allocated to CGUs and components pro-rata using Proved plus Probable reserve values.

On adoption of IFRS 1, the exploration and evaluation assets and oil and gas properties were tested for impairment. The impairment tests compared the carrying value of the assets to their recoverable amounts. The recoverable amount is the higher of fair value less costs to sell or value in use.

As a result of applying the IFRS 1 exemption for oil and gas assets previously accounted for under the full cost approach under Canadian GAAP, the adjustment for the revaluation of the decommissioning liability was recognized in opening deficit as at January 1, 2010.

### **Mandatory Exceptions**

#### **Derecognition of Financial Assets and Liabilities**

The Company has applied the derecognition requirements in IAS 39 Financial Instruments: Recognition and Measurement prospectively from the Transition Date. As a result any non-derivative financial assets or non-derivative financial liabilities derecognized prior to the Transition Date in accordance with pre-changeover Canadian GAAP have not been reviewed for compliance with IAS 39.

#### **Estimates**

The estimates previously made by the Company under pre-changeover Canadian GAAP were not revised for the application of IFRS except where necessary to reflect any difference in accounting policy. As a result the Company has not used hindsight to revise estimates.

# RELENTLESS RESOURCES LTD.

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*(Unaudited)*

For the three and Nine months ended September 30, 2011, with comparative figures for 2010

*(tabular amounts are in \$ thousands, except share and per share amounts)*

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## **15. First Time Adoption of International Financial Reporting Standards (continued):**

### **Reconciliation of Pre-Changeover Canadian GAAP Equity and Comprehensive Loss to IFRS**

IFRS 1 requires an entity to reconcile equity, comprehensive loss and cash flows for prior periods. The changes made to the statements of financial position and statements of loss and comprehensive loss as shown below have resulted in reclassifications of various amounts on the statements of cash flows, however as there have been no material adjustments to the net cash flows, no reconciliation of the statement of cash flows has been prepared.

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(Unaudited)

For the three and Nine months ended September 30, 2011, with comparative figures for 2010

(tabular amounts are in \$ thousands, except share and per share amounts)

## 15. First Time Adoption of International Financial Reporting Standards (continued):

### Reconciliation of the Statements of Financial Position from Canadian GAAP to IFRS:

At the end of the comparative period under CGAAP – September 30, 2010:

	Notes	Canadian GAAP	Effect of transition to IFRS	IFRS
<b>Assets</b>				
Current assets:				
Cash and cash equivalents		\$ -	\$ -	\$ -
Accounts receivable		124		124
Deposits and prepaid expenses		67		67
Total current assets		191		191
Non-current assets:				
Property and equipment	(c,e)	1,104	381	1,485
Total non-current assets		1,104	381	1,485
Total assets		\$ 1,295	\$ 381	\$ 1,676
<b>Liabilities and Equity</b>				
Current liabilities:				
Bank indebtedness		255	-	255
Accounts payable and accrued liabilities		\$ 26	\$ -	\$ 26
		281		281
Non-current liabilities:				
Decommissioning obligations	(b)	166	8	174
Total non-current liabilities		166	8	174
Total liabilities		447	8	455
Shareholders' equity:				
Share capital		3,520		3,520
Contributed surplus		410		410
Deficit		(3,082)	373	(2,709)
Total shareholders' equity	(b,c,e)	848	373	1,221
Total liabilities and shareholders' equity		\$ 1,295	\$ 381	\$ 1,676

# RELENTLESS RESOURCES LTD.

Notes to the Condensed Interim Financial Statements, page 24  
(Unaudited)

For the three and Nine months ended September 30, 2011, with comparative figures for 2010

(tabular amounts are in \$ thousands, except share and per share amounts)

## 15. First Time Adoption of International Financial Reporting Standards (continued):

### Reconciliation of the Statement of Financial Position from Canadian GAAP to IFRS:

At the end of the last reporting year under CGAAP – December 31, 2010:

	Notes	Canadian GAAP	Effect of transition to IFRS	IFRS
<b>Assets</b>				
Current assets:				
Cash and cash equivalents		\$ 1,386	\$ -	\$ 1,386
Accounts receivable		131		131
Deposits and prepaid expenses		16		16
Total current assets		1,533		1,533
Non-current assets:				
Exploration and evaluation	(a)	-	575	575
Property and equipment	(a,c,d,e)	1,623	(716)	907
Total non-current assets		1,623	(141)	1,482
Total assets		\$ 3,156	\$ (141)	\$ 3,015
<b>Liabilities and Equity</b>				
Current liabilities:				
Accounts payable and accrued liabilities		\$ 181	\$ -	\$ 181
Flow-through liabilities		-	100	100
Total current liabilities		181	100	281
Non-current liabilities:				
Decommissioning obligations	(b)	184	10	194
Total non-current liabilities		184	10	194
Total liabilities		365	110	475
Shareholders' equity:				
Share capital		5,588	(100)	5,488
Contributed surplus		464	-	464
Deficit	(a,b,c,d,e)	(3,261)	(151)	(3,412)
Total shareholders' equity		2,791	(251)	2,540
Total liabilities and shareholders' equity		\$ 3,156	\$ (141)	\$ 3,015

# RELENTLESS RESOURCES LTD.

Notes to the Condensed Interim Financial Statements, page 25  
(Unaudited)

For the three and Nine months ended September 30, 2011, with comparative figures for 2010

(tabular amounts are in \$ thousands, except share and per share amounts)

## 15. First Time Adoption of International Financial Reporting Standards (continued):

### Reconciliation of the Statement of Comprehensive Loss from Canadian GAAP to IFRS:

For the comparative period ended under CGAAP – Nine months ended September 30, 2010:

	Notes	Canadian GAAP	Effect of transition to IFRS	IFRS
<b>REVENUE</b>				
Oil and natural gas revenue		\$ 362	\$ -	\$ 362
Royalties		(6)	-	(6)
		356	-	356
<b>EXPENSES</b>				
Operating		137	-	137
Depletion and depreciation	(e)	215	(32)	183
Interest	(g)	34	(34)	-
General administration		315	(1)	314
Share based compensation		-	-	-
		701	(67)	634
Results from operating activities		(345)	67	(278)
Gain on sale of resource property	(f)	203	348	551
Finance income	(g)	14	-	14
Finance expense	(b,g)	-	(42)	(42)
Net finance income		217	306	523
Net and comprehensive income for the period		\$ (128)	\$ 373	\$ 245

# RELENTLESS RESOURCES LTD.

Notes to the Condensed Interim Financial Statements, page 26  
(Unaudited)

For the three and Nine months ended September 30, 2011, with comparative figures for 2010

(tabular amounts are in \$ thousands, except share and per share amounts)

## 15. First Time Adoption of International Financial Reporting Standards (continued):

### Reconciliation of the Statement of Comprehensive Loss from Canadian GAAP to IFRS:

For the last reporting year ended under CGAAP – December 31, 2010:

	Notes	Canadian GAAP	Effect of transition to IFRS	IFRS
<b>Revenue:</b>				
Oil and natural gas revenue		\$ 493	\$ -	\$ 493
Royalties		(7)	-	(7)
		486	-	486
<b>Expenses:</b>				
Operating		200	-	200
Depletion and depreciation	(a,c,d)	258	166	424
Interest	(g)	36	(36)	-
General administration		460	-	460
Share based compensation		49	-	49
		1,003	130	1,133
Results from operating activities		(517)	(130)	(647)
Gain on sale of resource property	(f)	195	356	551
Finance income	(g)	15	-	15
Finance expenses	(b,g)	-	(45)	(45)
Net finance income		210	401	521
Net and comprehensive loss for the year		\$ (307)	\$ 271	\$ (126)

# RELENTLESS RESOURCES LTD.

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*(Unaudited)*

For the three and Nine months ended September 30, 2011, with comparative figures for 2010

*(tabular amounts are in \$ thousands, except share and per share amounts)*

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## 16. Explanation of effect on transition:

Notes to reconciliations:

(a) IFRS 1 election for full cost oil and gas entities

The Company elected an IFRS 1 exemption whereby the pre-changeover Canadian GAAP full cost pool was measured upon transition to IFRS as follows:

- (i) exploration and evaluation assets were reclassified from the full cost pool to intangible exploration assets at the amount that was recorded under pre-changeover Canadian GAAP; and
- (ii) the remaining full cost pool was allocated to the producing/development assets and components pro rata using reserve values.

As required under IFRS 1, due to the use of the full cost exemption, the Company tested property and equipment for impairment at the transition date of January 1, 2010 and recorded an impairment of \$332,484. The impairment was derived by comparing the Company's carrying value by CGU to the recoverable amounts based on value in use. The Company's CGU's are based on assets that are within similar geographical areas. At September 30, 2010, there was no change in the impairment. At December 31, 2010, the Company recorded impairment in the amount of \$136,412.

Under pre-changeover Canadian GAAP, PP&E included certain E&E expenditures incurred within established geographic areas. Under IFRS, E&E costs related to each license/prospect are initially capitalized within exploration and evaluation assets. The costs are accumulated in cost centres by well, field or exploration area pending determination of technical feasibility and commercial viability. The Company does not deplete E&E assets.

The asset will be transferred to PP&E if technical and economic feasibility have been established by proved reserve assignment. The asset will be expensed if it has been determined there is no future value. For the three months ended September 30, 2010 and year ended December 31, 2010, the Company expensed \$nil related to pre-license costs which were previously capitalized under CGAAP.



# RELENTLESS RESOURCES LTD.

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(Unaudited)

For the three and Nine months ended September 30, 2011, with comparative figures for 2010

*(tabular amounts are in \$ thousands, except share and per share amounts)*

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## 16. Explanation of effect on transition (continued):

### (b) Decommissioning obligations:

Under Canadian GAAP asset retirement obligations were discounted at a credit adjusted risk fee rate of 5.0 percent. Under IFRS the Company's credit adjusted estimated cash flow to abandon and remediate the wells and facilities is discounted at an average risk free rate of 2.8 percent. As a result, the decommissioning liabilities will increase by \$52,128 at January 1, 2010 (March 31, 2011 - \$9,389; December 31, 2010 - \$10,128). The amounts at September 30, 2010 for \$7,872 and December 31, 2010 for \$9,276 represent the accretion of the liability.

In addition, under Canadian GAAP accretion of the discount was included in depletion and depreciation. Under IFRS it is included in finance expenses.

Under Canadian GAAP expenditures on remediation and abandonment were not included in changes in non-cash working capital as done under IFRS.

### (c) Impairment of property and equipment (PP&E):

In accordance with IFRS, impairment tests of PP&E must be performed at the CGU level as opposed to the entire PP&E balance which was required under the previous GAAP through the full cost ceiling test. An impairment is recognized if the carrying value exceeds the recoverable amount for a CGU. At January 1, 2010, on transition to IFRS, there were impairments recognized on all of the Company's CGU's totaling \$332,484. In the fourth quarter of 2010, additional impairments of \$136,412 were recognized in the Eyremore, Hays and Niton CGU's as additional depletion and depreciation expense due to continued decreasing natural gas prices. PP&E impairments can be reversed in the future if the recoverable amount decreases.

### (d) Flow-through Shares

Under pre-changeover Canadian GAAP, the entire proceeds from the issuance of flow-through shares were recognized in equity less the tax effects of renunciation. Under IFRS, on issuance of flow-through shares, the Company bifurcates the flow-through share into i) a flow-through share premium, equal to the estimated premium, if any, investors pay for the flow-through feature, which is recognized as a liability and; ii) share capital. Upon expenses being incurred, the Company derecognizes the liability and recognizes a deferred tax liability for the amount of tax reduction renounced to the shareholders. The premium is recognized as other income and the related deferred tax is recognized as a tax provision.

To the extent that the Company has deferred tax assets in the form of tax loss carry-forwards and other unused tax credits as at the end of the reporting period, the Company may use them to reduce its deferred tax liability relating to tax benefits transferred through flow-through shares.

# RELENTLESS RESOURCES LTD.

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(Unaudited)

For the three and Nine months ended September 30, 2011, with comparative figures for 2010

*(tabular amounts are in \$ thousands, except share and per share amounts)*

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## 16. Explanation of effect on transition (continued):

As a result of the issuances of flow-through shares, share capital was decreased by \$100,000 at December 31, 2010.

Where flow-through shares were issued but expenditures not incurred by the end of the reporting period, a flow-through share liability will show. This resulted in a liability of \$100,000 at December 31, 2010.

### (e) Depletion policy:

Upon transition to IFRS, the Company adopted a policy of depleting oil and natural gas interests on a unit of production basis over proved plus probable reserve volumes. The depletion policy under Canadian GAAP was based on units of production over proved reserves. In addition, depletion was done on the Canadian cost centre under Canadian GAAP. IFRS requires depletion and depreciation to be calculated based on individual components (such as fields or combinations thereof).

There was no impact of this difference on adoption of IFRS at January 1, 2010 as a result of the IFRS 1 election as discussed above. For the year ended December 31, 2010, depletion decreased by \$13,357.

For the Nine months ended September 30, 2010 component accounting resulted in a decrease to depletion of \$32,200 with a corresponding change to property and equipment. For the year ended December 31, 2010 depleting the oil and gas interests over the proved plus probable reserves resulted in a decrease to depletion and depreciation expense of \$13,357.

### (f) Gain on sale of resource properties:

Under the previous GAAP, proceeds from divestitures were deducted from the full cost pool without recognition of a gain or loss unless the deduction resulted in a change in the depletion rate of 20 percent or greater, in which case a gain or loss was recorded. Under IFRS, gains or losses are recorded on divestitures and are calculated as the difference between the proceeds and the net book value of the asset disposed. For the year ended December 31, 2010, Relentless recognized a gain of \$551,787 on divestitures under IFRS compared to \$195,500 under the previous GAAP.

### (g) Finance income and expenses:

Under the previous GAAP, interest income was reported as revenue and interest expense was included with other reported expenses. Under IFRS finance income and finance expenses are included as separate line items within the net and comprehensive loss statement. Finance expenses include interest expense on borrowings and the accretion on decommissioning obligations.

# **RELENTLESS RESOURCES LTD.**

Notes to the Condensed Interim Financial Statements, page 30

*(Unaudited)*

For the three and Nine months ended September 30, 2011, with comparative figures for 2010

*(tabular amounts are in \$ thousands, except share and per share amounts)*

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