



**FINANCIAL STATEMENTS**  
**FOR THE**  
**YEARS ENDED DECEMBER 31, 2012 AND 2011**  
(EXPRESSED IN CANADIAN DOLLARS)

Audited Financial Statement

## Independent Auditors' Report

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To the Shareholders of Relentless Resources Ltd.:

We have audited the accompanying financial statements of Relentless Resources Ltd, which comprise the statement of financial position as at December 31, 2012, and the statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Financial Statements*

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

### *Auditors' Responsibility*

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

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

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

### *Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of Relentless Resources Ltd. as at December 31, 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

### *Other Matter*

The comparative figures as at December 31, 2011 and for the year then ended were audited by another firm of Chartered Accountants who expressed an unqualified opinion in their report dated April 26, 2012.

Calgary, Alberta  
April 29, 2013

*MNP* LLP  
Chartered Accountants

# RELENTLESS RESOURCES LTD.

## STATEMENTS OF FINANCIAL POSITION

As at

	Note	December 31, 2012	December 31, 2011
<b>Assets</b>			
Current assets:			
Cash		\$ 450,132	\$ 1,110,028
Trade and other receivables		161,366	211,035
Inventory		-	9,500
Deposits and prepaid expenses		18,114	10,173
Total current assets		629,612	1,340,736
Non-current assets:			
Property and equipment	6	2,400,436	3,256,263
<b>Total assets</b>		<b>\$ 3,030,048</b>	<b>\$ 4,596,999</b>
<b>Liabilities</b>			
Current liabilities:			
Trade and other payables		\$ 249,088	\$ 1,930,146
Flow through share liability	8	192,000	125,000
Total current liabilities		441,088	2,055,146
Non-current liabilities:			
Decommissioning obligations	9	303,172	301,093
Total liabilities		744,260	2,356,239
<b>Shareholders' Equity</b>			
Share capital	10	6,927,571	6,365,920
Contributed surplus		640,422	628,363
Deficit		(5,282,205)	(4,753,523)
Total shareholders' equity		2,285,788	2,240,760
<b>Total liabilities and shareholders' equity</b>		<b>\$ 3,030,048</b>	<b>\$ 4,596,999</b>

APPROVED BY:

signed "Dan Wilson"

Director

signed "William C. Macdonald"

Director

# RELENTLESS RESOURCES LTD.

## STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

For the years ended December 31,

	Note	2012	2011
<b>Revenue</b>			
Oil and natural gas revenue		\$ 1,444,630	\$ 1,581,903
Royalties		(82,992)	(171,238)
		<b>1,361,638</b>	<b>1,410,665</b>
<b>Expenses</b>			
Operating		531,417	415,149
General and administrative		369,620	464,079
Share-based compensation	11	10,210	172,108
Depletion, depreciation and impairment	6	1,078,834	1,799,259
		<b>1,990,081</b>	<b>2,850,595</b>
Loss from operations		<b>(628,443)</b>	<b>(1,439,930)</b>
<b>Other income (expense)</b>			
Finance income		818	5,538
Finance expense		(26,057)	(6,461)
Flow-through share income	8	125,000	100,000
		<b>99,761</b>	<b>99,077</b>
Net loss before taxes		<b>(528,682)</b>	<b>(1,340,853)</b>
Deferred tax expense	15	\$ -	\$ -
Loss and Comprehensive loss for the year		<b>(528,682)</b>	<b>(1,340,853)</b>
Loss per share: Basic and diluted	12	\$ (0.02)	\$ (0.05)

# RELENTLESS RESOURCES LTD.

## STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the years ended December 31,

	Note	Number of common shares	Share capital	Contributed surplus	Deficit	Total equity
Balance at January 1, 2012		26,825,085	\$ 6,365,920	\$ 628,363	\$ (4,753,523)	\$ 2,240,760
Share-based compensation	11	-	-	10,210	-	10,210
Flow through shares issued	8	3,200,000	608,000	-	-	608,000
Warrants issued	11	-	-	1,849	-	1,849
Share Issue costs		-	(46,349)	-	-	(46,349)
Loss for the year		-	-	-	(528,682)	(528,682)
Balance at December 31, 2012		30,025,085	\$ 6,927,571	\$ 640,422	\$ (5,282,205)	\$ 2,285,788
Balance at January 1, 2011		24,172,585	\$ 5,488,016	\$ 464,534	\$ (3,412,670)	\$ 2,539,880
Share-based compensation	11	-	-	172,108	-	172,108
Options exercised	11	145,000	22,779	(8,279)	-	14,500
Flow through shares issued	8	2,500,000	875,000	-	-	875,000
Warrants exercised	11	7,500	2,250	-	-	2,250
Share Issue costs		-	(22,125)	-	-	(22,125)
Loss for the year		-	-	-	(1,340,853)	(1,340,853)
Balance at December 31, 2011		26,825,085	\$ 6,365,920	\$ 628,363	\$ (4,753,523)	\$ 2,240,760

# RELENTLESS RESOURCES LTD.

## STATEMENTS OF CASH FLOWS

For the years ended December 31,

	Note	2012	2011
Cash flows from operating activities:			
Loss and comprehensive loss for the year		\$ (528,682)	\$ (1,340,853)
Adjustments for:			
Depletion, depreciation and impairment		1,078,834	1,799,259
Non-cash finance expenses		2,848	-
Share-based compensation expense	11	10,210	172,108
Flow-through share income		(125,000)	(100,000)
Change in non-cash working capital	13	51,228	(83,595)
Net cash from operating activities		489,438	446,919
Cash flows used in investing activities:			
Capital expenditures – property and equipment	6	(223,776)	(3,445,089)
Change in non-cash working capital	13	(1,681,058)	1,749,146
Net cash used in investing activities		(1,904,834)	(1,695,943)
Cash flows from financing activities:			
Issuance of common shares	8	755,500	971,302
Proceeds from exercise of share options	10	-	2,250
Net cash from financing activities		755,500	973,552
Change in cash		(659,896)	(275,472)
Cash, beginning of year		\$ 1,110,028	\$ 1,385,500
Cash, end of year		\$ 450,132	\$ 1,110,028
Interest paid		\$ 22,250	\$ 6,710

# RELENTLESS RESOURCES LTD.

## NOTES TO THE YEAR END FINANCIAL STATEMENTS

*For the years ended December 31, 2012 and 2011*

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### 1. Reporting entity

Relentless Resources Ltd. (“Relentless” or the “Company”) is engaged in the exploration, 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 320, 700 – 4<sup>th</sup> Avenue SW, Calgary, Alberta.

### 2. Basis of preparation

#### a) Statement of compliance:

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and the interpretations of the International Financial Interpretations Committee (“IFRIC”) and in effect at the closing date of December 31, 2012.

These financial statements were authorized for issuance by the Board of Directors on April 29, 2013.

#### b) Basis of measurement:

The financial statements have been prepared on a going concern and historical cost basis except for certain items measured at fair value as outlined in Note 3.

#### c) Functional and presentation currency:

These financial statements are presented in Canadian dollars, which is the Company’s functional currency, and all amounts are rounded to the nearest Dollar (Canadian \$1) except for per share amounts.

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

Management is required to make estimates, judgments and assumptions that affect the application of policies and the reported amounts of assets, liabilities, income and expenses.

Management reviews these estimates, judgments and assumptions on an ongoing basis, including those related to the determination of cash generating units, depreciation, depletion and amortization, decommissioning obligations, fair values of financial statements, recoverability of assets, income taxes, and share-based payments. Actual results may differ from these estimates. See Note 5 for a description of significant estimates and judgments.

# RELENTLESS RESOURCES LTD.

## NOTES TO THE YEAR END FINANCIAL STATEMENTS

*For the years ended December 31, 2012 and 2011*

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### 3. Significant accounting policies

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

Certain comparative amounts have been reclassified to conform to the current period's presentation.

a) Jointly controlled operations and jointly controlled assets:

Many of the Company's oil and natural gas activities involve jointly controlled assets. The 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:

Non-derivative financial instruments include cash, trade and other receivables, bank debt, trade and other payables. Non-derivative financial instruments are recognized initially at fair value. Subsequent to the initial recognition, non-derivative financial instruments are designated into one of the following categories and measured as described below.

- (i) Financial assets and liabilities at fair value through profit or loss: Financial assets and liabilities at fair value through profit or loss are either "held for trading" or have been "designated at fair value through profit or loss". In both cases the financial assets and financial liabilities are measured at fair value with changes in fair value recognized in the statement of comprehensive (loss) income. A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short-term.

The Company has designated its cash in this category.

- (ii) 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 loans and receivables are comprised of trade and other receivables and are included in current assets due to their short-term nature. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment.

- (iii) Other financial liabilities: Other financial liabilities are subsequently measured at amortized cost using the effective interest method. The Company's other financial liabilities are comprised of bank debt and trade and other payables.

Financial liabilities are classified as current liabilities if payment is due within twelve months. Otherwise, they are presented as non-current liabilities.



# RELENTLESS RESOURCES LTD.

## NOTES TO THE YEAR END FINANCIAL STATEMENTS

For the years ended December 31, 2012 and 2011

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### 3. Significant accounting policies (continued)

Property and equipment and exploration and evaluation assets:

(i) Exploration and evaluation expenditures:

Pre-license costs are recognized in the statement of loss and comprehensive loss 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 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, or (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

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

(ii) Development and production assets:

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 CGUs by area.

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 loss and comprehensive loss.

(iii) 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 operations 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 YEAR END FINANCIAL STATEMENTS

For the years ended December 31, 2012 and 2011

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### 3. Significant accounting policies (continued)

#### (iv) 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 is at least a 50 percent statistical probability that the actual quantity of recoverable reserves will be more than the amount estimated as 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.

#### c) 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.

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 loss 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 loss and comprehensive loss.

# RELENTLESS RESOURCES LTD.

## NOTES TO THE YEAR END FINANCIAL STATEMENTS

For the years ended December 31, 2012 and 2011

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### 3. Significant accounting policies (continued)

#### (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 Development and Production assets, or also if facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

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, generating units. 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 from the assets group are discounted to their present value using a pre-tax discount rate that reflects the current market assessment of the time value of money and the risks specific to the asset group. Fair value less costs to sell 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 obtained from an independent engineers reserve report, less 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.

#### d) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying capital asset or project under construction are capitalized and added to the asset or project cost during construction until such time as the asset or project is substantially ready for its intended use. Where funds are specifically borrowed to finance an asset or project, the amount capitalized represents the actual amount of borrowing costs incurred. Where funds used to finance an asset or project form part of general borrowings, the amount capitalized is calculated using a weighted average of rates applicable to relevant general borrowings of the Company during the year. All other borrowing costs are recognized in the statement of loss and comprehensive income loss in the year in which they are incurred

#### e) Share based payments:

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.

# RELENTLESS RESOURCES LTD.

## NOTES TO THE YEAR END FINANCIAL STATEMENTS

For the years ended December 31, 2012 and 2011

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### 3. Significant accounting policies (continued)

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.

#### f) 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.

The Company's activities give rise to dismantling, decommissioning and site disturbance remediation 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.

#### g) 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.

#### h) 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 loss and comprehensive loss, using the effective interest method.

#### i) 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.

# RELENTLESS RESOURCES LTD.

## NOTES TO THE YEAR END FINANCIAL STATEMENTS

For the years ended December 31, 2012 and 2011

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### 3. Significant accounting policies (continued)

j) Basic and diluted per share calculations

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.

k) 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 proceeds 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 or on filing of the "renouncement", 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.

l) New standards and interpretations not yet effective

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, 2015. Early adoption is permitted and the standard is required to be applied retrospectively.

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.

# RELENTLESS RESOURCES LTD.

## NOTES TO THE YEAR END FINANCIAL STATEMENTS

For the years ended December 31, 2012 and 2011

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

Amendments to IAS32, Financial Instruments Presentation, financial assets and financial liabilities may be offset and the net amount presented in the statement of financial position, only when there is a legally enforceable right to set off and there is either an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The amendment to IAS 32, issued in December 2011, clarified the meaning of the offsetting criterion "currently has a legally enforceable right to set off" and the principle behind net settlement, including identifying when some gross settlement systems may be considered. The related amendment to IFRS 7, issued at the same time, requires new disclosures with respect to offsetting which include gross amounts subject to rights of set off, amounts set off in accordance with the offsetting criteria, amounts of financial instruments subject to master netting arrangements or similar agreements, and the related net amounts. The amendment will only affect disclosure and is effective for annual periods beginning on or after January 1, 2013.

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, an 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

### 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.

# RELENTLESS RESOURCES LTD.

## NOTES TO THE YEAR END FINANCIAL STATEMENTS

For the years ended December 31, 2012 and 2011

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### 4. Determination of fair values *(continued)*

(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 exploration and evaluation 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) Trade and other receivables, Trade and other payables and accrued liabilities and bank debt:

The fair value of trade and other receivables, trade and other payables 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 December 31, 2012 and December 31, 2011, the fair value of these balances approximated their carrying value due to their short term to maturity.

(iii) Share-based payments:

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 behavior), expected dividends, and the risk-free interest rate (based on government bonds).

### 5. Significant accounting estimates and judgments

In the process of applying the Company's accounting policies, management has made the following judgments, estimates, and assumptions which have the most significant effect on the amounts recognized in the financial statements:

a) Trade and other receivables

Trade and other receivables are recorded at the estimated recoverable amount. No allowance was required at December 31, 2012 (December 31, 2011 – nil).

b) Oil and gas reserves

Oil and gas development and production properties are depleted on a unit of production basis at a rate calculated by reference to proved and probable reserves determined in accordance with the Society of Petroleum Engineers rules and incorporating the estimated future cost of developing and extracting those reserves. Also, oil and gas reserves are also used to evaluate impairment of PP&E properties. Commercial reserves are determined using estimates of oil and natural gas in place, recovery factors, discount rates and forward future prices. Future development costs are estimated using assumptions as to the number of wells required to produce the commercial reserves, the cost of such wells and associated production facilities, and other capital costs. There are numerous uncertainties inherent in estimating oil and gas reserves.

# RELENTLESS RESOURCES LTD.

## NOTES TO THE YEAR END FINANCIAL STATEMENTS

For the years ended December 31, 2012 and 2011

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### 5. Significant accounting estimates and judgments *(continued)*

Estimating reserves is very complex, requiring many judgements based on geological, geophysical, engineering and economic data. These estimates may change, having either a positive or negative impact on the statement of comprehensive income (loss) as further information becomes available and as the economic environment changes.

#### c) Depletion and depreciation

Depletion of oil and gas properties is provided using the unit-of-production method and is based on production volumes (before royalties) in relation to total estimated gross proved and probable reserves as determined at year-end by the Company's independent engineers. Natural gas reserves and production are converted at the energy equivalent of six thousand cubic feet to one barrel of oil. Calculations for depletion of oil and gas properties including production equipment and facilities, are based on total capitalized costs plus estimated future development costs of proved and probable reserves less the estimated net realizable value of production equipment and facilities after the reserves are fully produced. Exploration and evaluation costs are excluded from depletion calculations.

The calculation of the unit-of-production rate of depletion could be impacted to the extent that actual reserve values differ from estimated reserve values. This would generally result from significant changes in any of the factors or assumptions used in estimating reserves.

#### d) Cash Generating Unit

The determination of CGUs requires judgment in defining the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. CGUs are determined by similar geological structure, shared infrastructure, geographical proximity, commodity type, similar exposure to market risk and materiality.

#### Impairment indicators

The recoverable amounts of CGUs and individual assets have been determined based on the higher of value-in-use calculations and fair value less costs to sell. These calculations require the use of estimates and assumptions. Oil and gas development and production properties are evaluated for impairment by reference to proved and probable reserves determined in accordance with the Society of Petroleum Engineers rules. It is possible that oil and gas price assumptions may change which may then impact the estimated life of fields and may then require a material adjustment to the carrying value of E&E assets and property, plant and equipment. The Company monitors internal and external indicators of impairment relating to its tangible and intangible assets.

#### e) Decommissioning obligations

Decommissioning obligations will be incurred by the Company at the end of the operating life of certain facilities and properties. Decommissioning obligations are estimated based on current legal and constructive requirements, technology, price levels and expected plans for remediation and are inflated to the date of decommissioning of the asset and discounted at a risk-free rate. The ultimate decommissioning costs are uncertain and cost estimates can vary in response to many factors including changes to relevant regulatory requirements, the emergence of new restoration techniques or experience at other production sites. The expected timing and amount of expenditure can also change, for example in response to changes in reserves or changes in laws and regulations or their interpretation. As a result, there could be significant adjustments to the provisions established which would affect future financial results.



# RELENTLESS RESOURCES LTD.

## NOTES TO THE YEAR END FINANCIAL STATEMENTS

For the years ended December 31, 2012 and 2011

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### 5. Significant accounting estimates and judgments (continued)

f) Share-based payments

The fair value of stock options and warrants granted is recognized using the Black-Scholes option pricing model. Measurement inputs include the Company's share price on the measurement date, the exercise price of the option, the expected volatility of the Company's shares, the expected life of the options, expected dividends and the risk-free rate of return. The Company estimates volatility based on the historical share price in the publicly traded markets. The expected life of the options is based on historical experience and estimates of the holder's behaviour. Dividends are not factored in as the Company does not expect to pay dividends in the foreseeable future. Management also makes an estimate of the number of options that will be forfeited and the rate is adjusted to reflect the actual number of options that actually vest.

g) Deferred taxes

Tax regulations and legislation and the interpretations thereof in which the Company operates are subject to change. As such, income taxes are subject to measurement uncertainty.

Deferred tax liabilities are recognized when there are taxable temporary differences that will reverse and result in a future outflow of funds to a taxation authority. The Company records a provision for the amount that is expected to be settled, which requires the application of judgment as to the ultimate outcome. Deferred tax liabilities could be impacted by changes in the Company's estimate of the likelihood of a future outflow and the expected settlement amount. As such, there may be a significant impact on the financial statements of future periods.

Deferred income tax assets are recognized to the extent that it is probable that the deductible temporary differences will be recoverable in future periods. The recoverability assessment involves a significant amount of estimation including an evaluation of when the temporary differences will reverse, an analysis of the amount of future taxable statement of comprehensive income (loss), the availability of cash flow to offset the tax assets when the reversal occurs and the application of tax laws. To the extent that assumptions used in the recoverability assessment change, there may be a significant impact on the financial statements of future periods.

### 6. Property and equipment

Cost:

Balance at December 31, 2010	\$	1,277,993
Change in decommissioning obligations		117,000
Transfer from exploration and evaluation assets		575,027
Additions		3,445,089
<hr/>		
Balance at December 31, 2011	\$	5,415,109
Change in decommissioning obligations		(769)
Additions		223,776
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Balance at December 31, 2012	\$	5,638,116

# RELENTLESS RESOURCES LTD.

## NOTES TO THE YEAR END FINANCIAL STATEMENTS

For the years ended December 31, 2012 and 2011

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### 6. Property and equipment (continued)

Accumulated depletion, depreciation and impairment losses:		
Balance at December 31, 2010	\$	(359,587)
Depletion and depreciation		(357,292)
Impairment		(1,441,967)
<hr/>		
Balance at December 31, 2011	\$	(2,158,846)
Depletion and depreciation		(479,673)
Impairment		(599,161)
<hr/>		
Balance at December 31, 2012	\$	(3,237,680)
<hr/>		
Net book value		
At December 31, 2011	\$	3,256,263
At December 31, 2012	\$	2,400,436

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a) Collateral:

At December 31, 2012, and December 31, 2011 all of the Company's properties are pledged as collateral for the bank debt.

b) Depletion:

At December 31, 2012 estimated future costs to develop the proved plus probable reserves of \$172,000 (2011 - \$516,000) were added to property and equipment for depletion and depreciation purposes.

c) Impairments:

At December 31, 2012 as a result of decreasing commodity prices, Relentless recognized an impairment of \$599,161 (2011- \$1,441,967) on its Loverna Hays and Niton areas. The impairment charge was recorded as additional depletion, depreciation and impairment expense. The impairment was based on the difference between the year-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 15%. The discount rate was determined based upon the implied discount rate inherent in transactions involving similar properties during 2012. The following commodity price estimates were used:

# RELENTLESS RESOURCES LTD.

## NOTES TO THE YEAR END FINANCIAL STATEMENTS

For the years ended December 31, 2012 and 2011

### 6. Property and equipment (continued)

Year	WTI Cushing Oklahoma 40° API (\$US/bbl)	Edmonton Par Price 40° API (\$Cdn/bbl)	Alberta AECO-C Spot (\$Cdn/MMBTU)	Henry Hub (\$US/MMBtu)
2013	89.63	84.55	3.31	3.65
2014	89.93	89.84	3.72	4.06
2015	88.29	88.21	3.91	4.24
2016	95.52	95.43	4.70	5.04
2017	96.96	96.87	5.32	5.66
2018	98.41	98.32	5.40	5.74
2019	99.89	99.79	5.49	5.83
2020	101.38	101.29	5.58	5.91
2021	102.91	102.81	5.67	6.00
2022	104.45	104.35	5.76	6.09
2023	106.02	105.92	5.85	6.18

Escalation rate of 1.5% thereafter

(1) Source: Sproule Associates Limited, effective December 31, 2013

There was no impairment recognized on transfer of Exploration and evaluation assets during the year ended December 31, 2011.

#### d) Capitalized general and administrative costs and interest:

The Company has not capitalized any general and administrative expenses or interest during the years ended December 31, 2012 or 2011.

### 7. Bank Debt

As at December 31, 2012, the Company had a \$700,000 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 May 31, 2013 at which time it may be extended, at the lenders option. As at the date the directors approved these 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 collateralized by a general security agreement and a first ranking charge on all lands of the Company. Under the terms of the facility, the Company is required to maintain a working capital ratio of not less than 1:1. As at December 31, 2012 and 2011 the Company had not drawn on this loan facility.

### 8. Flow-through share liability

Balance at January 1, 2011	\$	-
Liability incurred on flow-through shares issued		125,000
Balance at December 31, 2011	\$	125,000
Settlement of flow-through share liability on incurring expenditures		(125,000)
Liability incurred on flow-through shares issued in 2012		192,000
Balance at December 31, 2012	\$	192,000

# RELENTLESS RESOURCES LTD.

## NOTES TO THE YEAR END FINANCIAL STATEMENTS

For the years ended December 31, 2012 and 2011

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### 8. Flow-through share liability (continued)

On December 20, 2012, the Company completed a private placement of 3,200,000 common shares on a "flow-through basis" at a price of \$0.25 per share for total proceeds of \$800,000. The Company incurred share issuance costs in an amount of \$46,349 of which \$44,500 relates to a finder's fee paid in cash and non-cash finders' warrants with a fair value of \$1,849. The Company has until December 31, 2013 to make the necessary expenditures under the Flow-through share program.

On October 6, 2011, the Company completed a private placement of 2,500,000 common shares on a "flow-through basis" at a price of \$0.40 per share for total proceeds of \$1,000,000. The Company paid an arm's-length party a finder's fee of \$22,125 and issued finders' warrants exercisable into 22,125 common shares at a price of \$0.40 per share for a period of 12 months from the closing date.

### 9. Decommissioning obligations

The following reconciles the Company's decommissioning obligations:

Balance at December 31, 2010	\$	193,841
Accretion		3,525
Change in liability estimate		16,500
Decommissioning liability acquired		87,227
<hr/>		
Balance at December 31, 2011	\$	301,093
Accretion		2,848
Change in liability estimate		(769)
<hr/>		
Balance at December 31, 2012	\$	303,172

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 \$378,000 (2011 - \$ 346,093) which will be incurred over the next 30 years (2011 – 25 years) with the majority of costs to be incurred between 2013 and 2042. An average risk-free rate of 1.46 percent (2011 – 2.7%) and an inflation rate of 2 percent (2011 – 2.125 %) were used to calculate the net present value of the decommissioning obligations.

# RELENTLESS RESOURCES LTD.

## NOTES TO THE YEAR END FINANCIAL STATEMENTS

For the years ended December 31, 2012 and 2011

### 10. Share capital

An unlimited number of voting common shares and preferred shares are authorized.

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.

<b>Issued:</b>	<b>Number of Shares</b>	<b>Amount</b>
Balance at December 31, 2010	24,172,585	\$ 5,488,016
Issue of shares on exercise of options	145,000	22,779
Flow through share issuance (note 8)	2,500,000	1,000,000
Less flow-through liability (note 8)	-	(125,000)
Warrants exercised	7,500	2,250
Less share issue costs	-	(22,125)
Balance at December 31, 2011	26,825,085	\$ 6,365,920
Flow through share issuance (note 8)	3,200,000	800,000
Less flow-through liability (note 8)	-	(192,000)
Less share issue costs	-	(46,349)
Balance at December 31, 2012	30,025,085	\$ 6,927,571

### 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 years ended December 31, 2012 and 2011 are as follows:

	<b>2012</b>		<b>2011</b>	
	<b>Number of options</b>	<b>Weighted average exercise price</b>	<b>Number of options</b>	<b>Weighted average exercise price</b>
Outstanding at January 1	1,720,000	\$ 0.21	1,290,000	\$ 0.22
Expired	(32,500)	0.60	(325,000)	0.50-0.60
Exercised	-	-	(145,000)	0.10
Cancelled	(150,000)	0.31	-	-
Granted	75,000	0.16	900,000	0.30
Outstanding at year end	1,612,500	\$ 0.20	1,720,000	\$ 0.22
Exercisable at year end	1,612,500	\$ 0.20	1,720,000	\$ 0.22

# RELENTLESS RESOURCES LTD.

## NOTES TO THE YEAR END FINANCIAL STATEMENTS

For the years ended December 31, 2012 and 2011

### 11. Share based payments (continued)

The range of exercise prices of the outstanding options at December 31, 2012 is as follows:

	Options outstanding	Weighted average contractual life (years)
0.10	787,500	2.7
0.16	75,000	4.7
0.30	750,000	3.3
<b>\$ 0.10 to 0.30</b>	<b>1,612,500</b>	<b>3.09</b>

The fair value of the options granted was estimated using Black-Scholes model with the following weighted average inputs for the year ended December 31,

	2012	2011
Fair value at grant date	\$ 0.14	\$ 0.17-0.19
Share price	\$ 0.16	\$ 0.30-0.31
Exercise price	\$ 0.16	\$ 0.30-0.31
Volatility	127%	73%
Option life	5 years	5 years
Dividends	-%	-%
Risk-free interest rate	1.36%	2.68%-3.04%

#### Finders' warrants

In conjunction with the common shares issued on a "flow-through basis" in 2012 and 2011, the Company issued a total of 66,750 (2011 - 22,125) finders warrants exercisable into common shares at a price of \$0.25 (2011 - \$0.40) per share for a term of one year, expiring December 20, 2013 (October 31, 2012). These warrants were valued using the Black-Scholes method. In 2012 \$1,849 had been recorded as share issue costs (2011 - \$22,125).

The inputs to the Black-Scholes are as follows:

	2012	2011
Life	1 year	1 Year
Share price	\$ 0.19	\$ 0.40
Exercise price	\$ 0.25	\$ 0.35
Volatility	60%	43%
Risk-free rate	1.20%	1.09%
Dividend yield	Nil	Nil

As at December 31, 2012, 66,750 warrants (2011 - 22,125) remain outstanding. The warrants have an exercise price of \$ 0.25 (2011 - \$ 0.40) and a remaining life of 0.97 years (2011 - 0.84)

# RELENTLESS RESOURCES LTD.

## NOTES TO THE YEAR END FINANCIAL STATEMENTS

For the years ended December 31, 2012 and 2011

### 12. Loss per share

Loss per share was calculated as follows as follows:

	2012	2011
Loss and comprehensive loss for the year	\$ (528,682)	\$ (1,340,853)
Weighted average number of common shares – basic and diluted	26,921,523	24,876,147
Loss per share – basic and diluted	\$ (0.02)	\$ (0.05)

Excluded from diluted Loss per share is the effect of stock options and warrants as their effect is anti-dilutive.

### 13. Supplemented cash flow information

Changes in non-cash working capital for the years ended December 31, is comprised of:

	2012	2011
Source (use) of cash:		
Trade and other receivables	\$ 49,669	\$ (79,922)
Inventory	9,500	(9,500)
Deposits and prepaid expenses	(7,941)	5,827
Trade and other payables	(1,681,058)	1,749,146
	\$ (1,629,830)	\$ 1,665,551
Allocated to the following:		
Related to operating activities	\$ 51,228	\$ (83,595)
Related to investing activities	(1,681,058)	1,749,146
	\$ (1,629,830)	\$ 1,665,551

### 14. Related party transactions

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

During the year ended December 31, 2012 the Company paid \$26,400 (2011 - \$25,200) to a company related by a common member of management for shared office costs. At year end, included in trade and other payables is \$7,405 (2011 - \$8,068) and included in trade and other receivables is \$1,055 (2011 - \$828) related to these amounts.

#### Key Management Compensation

Key management personnel compensation for the year ended December 31 comprised:

	2012	2011
Consulting fees	\$ 158,060	\$ 202,100
Share based payments	10,210	172,108
	\$ 168,270	\$ 374,208

# RELENTLESS RESOURCES LTD.

## NOTES TO THE YEAR END FINANCIAL STATEMENTS

For the years ended December 31, 2012 and 2011

### 15. Income taxes

The difference between tax expense for the year and the expected income taxes based on the statutory tax rate arises as follows:

	2012	2011
Loss and Comprehensive Loss for the year	\$ (528,682)	\$ (1,340,328)
Recovery based on the statutory rate of 26% (2011: 27.5%)	(137,457)	(368,500)
Change in tax rates on deferred tax	-	(6,770)
Non-deductible expenses	2,941	19,000
Flow-through share renunciation	227,500	260,000
Other	(1,363)	(6,706)
Changes in unrecognized deferred tax assets	(91,621)	102,976
Total income tax expense / (recovery)	\$ -	\$ -

Effective January 1, 2012, the Canadian Federal corporate tax rate decreased from 16.5% to 15% and the Alberta and Saskatchewan provincial tax rate stayed at 10% and 12% respectively.

No deferred tax asset has been recognized in respect of the following losses and temporary differences as it is not considered probable that sufficient future taxable profit will allow the deferred tax asset to be recovered:

	2012	2011
Loss carry forwards	\$ 353,533	\$ 349,600
Property and equipment	296,530	382,000
Other deductible temporary differences	-	14,000
Share issue costs	22,316	18,400
Unrecognized deferred tax assets	(672,379)	(764,000)
	\$ -	\$ -

As at December 31, 2012, the Company has estimated non-capital losses for Canadian income tax purposes that may be carried forward to reduce taxable income derived in future years, as summarized below:

Non-capital Canadian tax losses expiring as follows:

Year of Expiry	Taxable losses
2028	\$ 773,349
2029	\$ 348,535
2030	\$ 237,852
2032	\$ -



# RELENTLESS RESOURCES LTD.

## NOTES TO THE YEAR END FINANCIAL STATEMENTS

For the years ended December 31, 2012 and 2011

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### 16. Capital management

The Company defines its capital as total shareholders' equity. Relentless' objective in managing capital is to have flexibility to finance future expansions of its business, through the use of its current funds generated from operations, its debt facilities and future share issuances. The Company expects to continue to improve the net cash flow due to improving commodity prices in 2013. The Company remains committed to maintaining the strength of its financial position, and plans to use cash flow for future programs.

The Company's credit facilities with a Canadian bank, are subject to review in May, 2013. The Company is required to maintain an adjusted working capital ratio of not less than 1:1 under the credit facility. As at December 31, 2012, the Company is in compliance with this ratio. As at December 31, 2012 and 2011 the Company had no amount outstanding on its credit facility.

### 17. Financial instruments and risk management

The Company's financial instruments consist of cash, trade and other receivables, bank debt and trade and other payables.

<b>Financial Instrument</b>	<b>Classification</b>	<b>Carrying Value \$</b>	<b>Fair Value \$</b>
Cash	Fair value through profit and loss	450,132	450,132
Trade and other receivables	Loans and receivables	161,366	161,366
Bank debt	Other financial liabilities	-	-
Trade and other payables	Other financial liabilities	249,088	249,088

The significance of inputs used in making fair value measurements are examined and classified according to a fair value hierarchy. Fair values of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than quoted prices for which all significant outputs are observable, either directly or indirectly. Level 3 valuations are based on inputs that are unobservable and significant to the overall fair value measurement.

At December 31, 2012, the Company's cash has been subject to Level 1 valuation.

# RELENTLESS RESOURCES LTD.

NOTES TO THE YEAR END FINANCIAL STATEMENTS

For the years ended December 31, 2012 and 2011

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## 17. Financial instruments and risk management (continued)

The main financial risks affecting the Company are as follows:

a) Credit risk

Credit risk is the risk of financial loss if a customer, partner or counterparty to a financial instrument fails to meet its contractual obligations. Receivables from petroleum and natural gas marketers are normally collected on the 25th day of the month following production and the Company could be at risk for up to 55 days of production from any marketer. The Company sells its production to two petroleum marketers and two natural gas marketers so that the exposure to any one entity is minimized. Oil sales make up 80% of the Company's revenue and natural gas & NGL's makes up the remaining 20% of revenue. The Company historically has not experienced any collection issues with its petroleum and natural gas marketers. Joint venture receivables are typically collected within two months of the joint venture bill being issued to the partner. The Company attempts to mitigate the risk from joint venture receivables by obtaining partner approval of significant capital expenditures prior to expenditure. The Company does not typically obtain collateral from joint venture partners; it may cash call a partner in advance of the work being performed. The Company establishes an allowance for doubtful accounts as determined by management based on their assessment of collection.

The maximum exposure to credit risk at the financial position date was equal to the carrying value of trade and other receivables. As of December 31, 2012 and 2011, all receivables were current and there were no receivables provided for or written off during the year ended December 31, 2012 or 2011.

At December 31, 2012, the Company's trade and other receivables have been aged as follows:

	<b>December 31, 2012</b>
<b>Days outstanding</b>	<b>\$</b>
0-30 days	152,867
31-60 days	-
61-90 days	-
Greater than 90 days	8,499
<b>Total</b>	<b>161,366</b>

Management of the Company believes all trade and other receivables are collectible. The Company does not have an allowance for doubtful accounts as at December 31, 2012 (December 31, 2011 - \$nil) and did not provide for any doubtful accounts or write-off any trade and other receivables during the year ended December 31, 2012 (December 31, 2011 - \$nil).

# RELENTLESS RESOURCES LTD.

## NOTES TO THE YEAR END FINANCIAL STATEMENTS

For the years ended December 31, 2012 and 2011

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### 17. Financial instruments and risk management (continued)

#### b) Market risk

Market risk consists of commodity price, foreign currency and interest rate risks.

##### i. Commodity price risk

Commodity price risk is the risk that future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for petroleum and natural gas are impacted by world economic events that dictate the levels of supply and demand, as well as the relationship between the Canadian and US dollar.

The Company is exposed to the risk of declining prices for production resulting in a corresponding reduction in projected cash flow. A \$1.00/boe increase or decrease in the price received for natural gas or oil would result in approximately a \$28,000 increase or decrease in revenues received for the year-end December 31, 2012. Reduced cash flow may result in lower levels of capital being available for field activity, thus compromising the Company's capacity to grow production while at the same time replacing continuous production declines from existing properties.

Bank financing available to the Company is in the form of a production loan, which is reviewed annually, and which is based on future cash flows and commodity price forecasts. Changes to commodity prices will have an effect on credit available to the Company under its banking agreement.

##### ii. Foreign Currency

The company does not directly deal in foreign currency, as such no subjected to any direct risk factors.

##### iii. Interest Rate Risk

Interest rate risk is that risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate fluctuations on its bank debt which bears a floating rate of interest. If interest rates on the maximum bank debt changed by one percent, net income (loss) would have changed by \$7,000 during the year ended December 31, 2012 (2011 - \$1,000).

#### c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient funds to meet its liabilities when due without incurring unacceptable losses or risking harm to the company's reputation. The Company prepares capital expenditure budgets, and monitors them regularly, as necessary.