

Relentless Resources Ltd.
Financial Statements
For the years ended December 31, 2014 and 2013

Relentless Resources Ltd.

*Financial Statements for the years ended
December 31, 2014 and 2013*

Management's Statement of Responsibility

To the Shareholders of Relentless Resources Ltd.

Management, in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board, has prepared the accompanying financial statements of Relentless Resources Ltd. (the "Company").

Management is responsible for the integrity of the financial information. Internal control systems are designed and maintained to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and to produce reliable accounting records for financial reporting purposes.

MNP LLP was appointed by the shareholder's to conduct an audit of the financial statements so as to express an opinion on the financial statements. Their examination included such tests and procedures, as they considered necessary, to provide reasonable assurance that the financial statements are presented fairly in accordance with IFRS.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board exercises this responsibility through the Audit Committee, with assistance from the Reserve Committee regarding the annual evaluation of our petroleum and natural gas reserves. The Audit Committee meets regularly with management and the independent auditors to ensure that management's responsibilities are properly discharged, to review the financial statements and recommend that the financial statements be presented to the Board of Directors for approval. The Audit Committee also considers the independence of the external auditors and reviews their fees. The external auditors have access to the Audit Committee without the presence of management.

"signed"
Daniel Wilson
Chief Executive Officer

"signed"
Hugh Thomson
Vice President Finance and Chief Financial Officer

April 21, 2015

Independent Auditors' Report

To the Shareholders of Relentless Resources Ltd.:

We have audited the accompanying financial statements of Relentless Resources Ltd. (the "Company"), which comprise the statements of financial position as at December 31, 2014 and 2013 and the statements of comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 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 in our audits 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, 2014 and 2013 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Calgary, Alberta
April 21, 2015

Chartered Accountants

Relentless Resources Ltd.

Statements of Financial Position As at (in Canadian dollars)

	Note	December 31, 2014	December 31, 2013
Assets			
Current			
Cash		\$ 1,630,784	\$ 192,567
Accounts receivable		597,207	125,403
Prepaid expenses and deposits		15,260	129,502
		2,243,251	447,472
Property, plant and equipment	6	8,298,459	2,202,574
		\$ 10,541,710	\$ 2,650,046
Liabilities and Shareholders' Equity			
Current			
Accounts payable and accrued liabilities		\$ 1,259,223	\$ 265,827
Flow through share premium	7	305,223	-
Current portion of decommissioning obligations	9	43,105	158,208
		1,607,551	424,035
Decommissioning obligations	9	3,747,917	1,468,350
		5,355,468	1,892,385
Shareholders' Equity			
Share capital	11	13,413,878	6,925,722
Contributed surplus	14	1,359,145	804,810
Deficit		(9,586,781)	(6,972,871)
		5,186,242	757,661
		\$ 10,541,710	\$ 2,650,046

SIGNED ON BEHALF OF THE BOARD

Director

Director

The accompanying notes are an integral part of the financial statements.

Relentless Resources Ltd.

Statements of Comprehensive Loss
For the years ended December 31,
(in Canadian dollars, except per share amounts)

	Note	2014	2013
Revenue			
Oil and natural gas sales	19	\$ 2,993,030	\$ 1,333,874
Royalties		(356,144)	(103,720)
Net revenue		2,636,886	1,230,154
Other income	15	166,667	262,728
		2,803,553	1,492,882
Expenses			
Production and operating		1,100,027	527,577
Depletion and depreciation	6	1,002,526	498,946
Impairment of property, plant and equipment	6	1,745,934	1,590,393
General and administrative		583,106	384,867
Share based compensation	12	577,434	162,539
Flow through share indemnification expense	20	350,186	-
Finance expense		58,250	19,226
		5,417,463	3,183,548
Net and comprehensive loss for the year		\$ (2,613,910)	\$ (1,690,666)
Loss per share, basic and diluted	16	\$ (0.06)	\$ (0.06)

The accompanying notes are an integral part of the financial statements.

Relentless Resources Ltd.

Statements of Changes in Shareholders' Equity For the years ended December 31, (in Canadian dollars)

	Note	2014		2013	
		Number	Amount	Number	Amount
Share capital					
Balance, beginning of year		30,025,085	\$6,925,722	30,025,085	\$6,927,571
Warrants expired	12	-	-	-	(1,849)
Common shares issued	11	33,499,010	7,046,965	-	-
Exercise of stock options	13	235,000	54,349	-	-
Flow through share premium	11	-	(471,890)	-	-
Share issue costs	11	-	(141,268)	-	-
Share capital, end of year		63,759,095	\$13,413,878	30,025,085	\$6,925,722
Warrants					
Balance, beginning of year		-	-	66,750	-
Expired	12	-	-	(66,750)	-
Issued	12	2,142,857	-	-	-
Warrants, end of year		2,142,857	-	-	-
Contributed surplus					
Balance, beginning of year			\$804,810		\$640,422
Warrants expired	12		-		1,849
Exercise of stock options	14		(23,099)		
Share based compensation	14		577,434		162,539
Contributed surplus, end of year			\$1,359,145		\$804,810
Deficit					
Balance, beginning of year			(\$6,972,871)		(\$5,282,205)
Comprehensive loss for the year			(2,613,910)		(1,690,666)
Deficit, end of year			(\$9,586,781)		(\$6,972,871)
Total Shareholders' equity, end of year			\$5,186,242		\$757,661

The accompanying notes are an integral part of the financial statements.

Relentless Resources Ltd.

Statements of Cash Flows For the years ended December 31, (in Canadian dollars)

	Note	2014	2013
Cash from operating activities:			
Comprehensive loss for the year		\$ (2,613,910)	\$ (1,690,666)
Adjustments for:			
Depletion and depreciation	6	1,002,526	498,946
Impairment of property, plant and equipment	6	1,745,934	1,590,393
Accretion	9	47,599	16,380
Share based compensation	13	577,434	162,539
Other income	15	(166,667)	(192,000)
		592,916	385,592
Change in non-cash working capital	18	129,541	(35,815)
Cash from operating activities		722,457	349,777
Cash used in investing activities:			
Cash received from asset exchange	6	-	200,000
Additions to property, plant and equipment, net	6	(6,727,480)	(784,471)
Change in non-cash working capital	18	506,293	(22,871)
Cash used in investing activities		(6,221,187)	(607,342)
Cash from financing activities:			
Proceeds from share issuance, net of share issue costs	11	6,936,947	-
Cash from financing activities		6,936,947	-
Change in cash		1,438,217	(257,565)
Cash, beginning of year		192,567	450,132
Cash, end of year		\$ 1,630,784	\$ 192,567
Interest paid		\$ 10,651	\$ 2,846

The accompanying notes are an integral part of the financial statements.

Relentless Resources Ltd.

Notes to Financial Statements
Years ended December 31, 2014 and 2013

1. Reporting entity

Relentless Resources Ltd. (“Relentless” or the “Company”) is an Alberta incorporated TSX Venture Exchange listed oil and natural gas exploration and production Company whose business activities are focused in Western Canada. The Company has no subsidiaries. The Company’s head office address is Suite 320, 700-4th Avenue SW, Calgary, Alberta T2P 3J4.

2. Basis of preparation

(a) Statement of compliance:

These financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board (“IASB”) and the Interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”) in effect December 31, 2014. The financial statements were authorized for issue by the Board of Directors on April 21, 2015.

(b) Basis of measurement:

These financial statements have been prepared on the historical cost basis except for share based payment transactions and certain financial instruments which are measured at fair value.

(c) Functional and presentation currency:

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

(d) New accounting policies:

Effective January 1, 2014, the Company adopted the following IFRS:

- IAS 32 Financial Instruments: Presentation - IAS 32 was amended to clarify that the right to offset financial assets and liabilities must be available on the current date and cannot be contingent on a future event. The application of the amendment had no impact on the Company's financial statements.
- IAS 36 Impairment of Assets - IAS 36 was amended in May 2013 to reduce the circumstances in which the recoverable amount of CGUs is required to be disclosed and clarify the disclosures required when an impairment loss has been recognized or reversed in the period. The amendments require retrospective application and were adopted by the Company on January 1, 2014. The adoption will only impact the Company's disclosures in the notes to the financial statements in periods when an impairment loss or impairment recovery is recognized. The application of the amendment had no impact on the statements of comprehensive loss or the statement of financial position.
- IFRIC 21 Levies - IFRIC 21 provides clarification on accounting for levies in accordance with the requirements of IAS 37 Provisions, Contingent Liabilities and Contingent Assets. The interpretation defines a levy as an outflow from an entity imposed by a government in accordance with legislation and confirms that a liability for a levy is recognized only when the triggering event specified in the legislation occurs. The retrospective adoption of this interpretation does not have any impact on the Company's financial statements.

In future accounting periods, the Company will adopt the following IFRS:

- IFRS 15 Revenue from Contracts with Customers - IFRS 15 was issued in May 2014 and replaces IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. The standard is required to be adopted either retrospectively or using a modified transaction approach for fiscal years beginning on or after January 1, 2017 with earlier adoption permitted. IFRS 15 will be adopted by the Company on January 1, 2017 and the Company is currently evaluating the impact of the standard on the financial statements.

Relentless Resources Ltd.

Notes to Financial Statements
Years ended December 31, 2014 and 2013

2. Basis of preparation (continued)

- IFRS 9 Financial Instruments - IFRS 9 was amended in July 2014 to include guidance to assess and recognize impairment losses on financial assets based on an expected loss model. The amendments are effective for fiscal years beginning on or after January 1, 2018 with earlier adoption permitted. This amendment will be adopted by the Company on January 1, 2018 and the Company is currently evaluating the impact of the amendment on the financial statements.

3. Significant accounting policies

(a) Joint arrangements:

The Company conducts many of its oil and gas production activities through jointly controlled operations and the financial statements reflect only the Company's proportionate interest in such activities. Joint control exists for contractual arrangements governing the Company's assets whereby the Company has less than 100 per cent working interest, all of the partners have control of the arrangement collectively, and spending on the project requires unanimous consent of all parties that collectively control the arrangement and share the associated risks. The Company does not have any joint arrangements that are structured through joint venture arrangements.

(b) Revenue:

Revenue associated with the sale of crude oil, natural gas, condensate and natural gas liquids ("NGLs") owned by the Company is recognized when title is transferred from the Company to its customers. Revenue is measured at the fair value of the consideration received or receivable. Revenue from the sale of crude oil, natural gas, condensate and NGLs (prior to deduction of transportation costs) is recognized when all of the following conditions have been satisfied:

- the Company has transferred the significant risks and rewards of ownership of the goods to the buyer;
- the Company retains no continuing managerial involvement to the degree usually associated with ownership or effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Company; and,
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

(c) Property, plant and equipment ("PP&E") and exploration and evaluation ("E&E") assets:

(i) Recognition and measurement:

E&E expenditures:

E&E expenditures, including the costs of acquiring licenses, technical services and studies, and exploration drilling and testing, initially are capitalized as exploration and evaluation assets according to the nature of the assets acquired. The costs are accumulated in cash generating units ("CGU's) by well, field or exploration area pending determination of technical feasibility and commercial viability. Costs incurred prior to obtaining the legal right to explore are expensed as incurred.

Technical feasibility and commercial viability of extracting a mineral resource is considered to be determinable when proved or probable reserves are determined to exist. A review of each lease or field is carried out, in each reporting year, to ascertain whether proved or probable reserves have been discovered. Upon determination of proved or probable reserves, intangible exploration and evaluation assets attributable to those reserves are first tested for impairment and then reclassified from exploration and evaluation assets to PP&E.

Relentless Resources Ltd.

Notes to Financial Statements
Years ended December 31, 2014 and 2013

3. Significant accounting policies (continued)

PP&E:

All costs directly associated with the development of oil, natural gas and liquids reserves are capitalized on an area-by-area basis. Development costs include expenditures for areas where technical feasibility and commercial viability has been determined. These costs include property acquisitions, development drilling, completion, gathering and infrastructure, decommissioning obligations and transfers from exploration and evaluation assets.

For divestitures of properties, a gain or loss is recognized in the statement of comprehensive loss. Exchanges of properties are measured at fair value, unless the transaction lacks commercial substance or fair value cannot be reliably measured. Where the exchange is measured at fair value, a gain or loss is recognized in the statement of comprehensive loss.

(ii) Subsequent costs:

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of PP&E 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 income or loss as incurred. Such costs generally represent amounts incurred in developing proved and/or probable reserves and bringing in or enhancing production from such reserves, and are accumulated on a field or area basis. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in production and operating expenses as incurred.

(iii) Depletion and depreciation:

E&E expenditures are not depleted.

The net carrying value of PP&E is depleted using the unit of production method by reference to the ratio of production in the year to the related proved and probable reserves, 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 reserve engineers at least annually.

Proved and probable reserves are estimated using independent reserve engineer 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.

(d) 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.

Relentless Resources Ltd.

Notes to Financial Statements
Years ended December 31, 2014 and 2013

3. Significant accounting policies (continued)

All impairment losses are recognized in the statement of comprehensive loss in the period in which they are incurred.

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 comprehensive loss.

(ii) Non-financial assets:

The Company's PP&E and E&E assets are grouped into CGUs for the purpose of assessing impairment. A CGU is a grouping of assets that generate cash inflows independently of other assets held by the Company. Geological formation, product type, geography and internal management are key factors considered when grouping the Company's PP&E and E&E assets into CGUs.

CGUs are reviewed at each reporting date for indicators of potential impairment. If such indicators exist, an impairment test is performed by comparing the CGU's carrying value to its recoverable amount, defined as the greater of a CGU's fair value less cost to sell and its current value in use. Any excess of carrying value over recoverable amount is recognized in the statements of comprehensive loss as an impairment charge.

These calculations require the use of estimates and assumptions. Unless indicated otherwise, the recoverable amount used in assessing impairment charges is fair value less costs to sell. The Company generally estimates fair value less costs to sell using a discounted cash flow model which has a significant number of assumptions. The model uses expected cash flows from proved plus probable reserves. Reserve estimates and expected future cash flows from production of reserves are subject to measurement uncertainty as discussed in note 4 and subject to variability to changes in forecasted commodity prices. The discount rate applied to the cash flows is also subject to management's judgment and will affect the recoverable amount calculated.

Commodity price changes impact the expected future cash flows which may require a material adjustment to the carrying value of tangible and intangible assets. The Company monitors internal and external indicators of impairment relating to its tangible and intangible assets. These indicators include changes in commodity prices, reserve volumes and discount rates.

The future cash flows are adjusted for risks specific to the asset and discounted using an appropriate discount rate. This discount rate is derived from the post-tax weighted average cost of capital for the Company's peer group.

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 the statement of comprehensive loss in the period in which they are incurred.

Impairment losses recognized in prior years 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 objective evidence of 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 or amortization, if no impairment loss had been recognized.

Relentless Resources Ltd.

Notes to Financial Statements
Years ended December 31, 2014 and 2013

3. Significant accounting policies (continued)

(e) 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 comprehensive loss in the year in which they are incurred.

(f) Share based payments:

The Company has a stock option plan under which the Company grants employees, directors and certain consultants options to purchase common shares of the Company. The Board of Directors has approved a policy of reserving up to 10% of the outstanding common shares for issuance to eligible participants. All options are equity settled share based compensation plans and all options awarded have a maximum term of five years. Vesting is determined by the Board of Directors.

The Company accounts for its stock options using the fair value method. The options have an exercise price equal to the fair value of the security at the date of grant. The fair value of each option is estimated on the date of grant using a Black-Scholes option-pricing model. The fair value is charged to comprehensive loss over the vesting year with a corresponding increase to contributed surplus. The Company estimates a forfeiture rate on the grant date based on weighted average historical forfeitures and the rate is adjusted to reflect the actual number of options that actually vest. The expected life of the options granted is estimated, based on the Company's best estimate, for the effects of non-transferability, exercise restrictions and behavioural patterns.

(g) 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, using a risk-free rate, of management's best estimate of expenditures required to settle the present obligations at the statement of financial position date. Subsequent to the initial measurement, the obligation is adjusted at the end of each year to reflect the passage of time and changes in the estimated future cash flows underlying the obligations. The increase in the provision due to the passage of time is recognized as financing expense 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.

(h) Financial instruments:

(i) Non-derivative financial instruments:

Non-derivative financial instruments comprise cash, accounts receivable and accounts payable and accrued liabilities. Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured at amortized cost using the effective interest method, less any impairment losses.

Relentless Resources Ltd.

Notes to Financial Statements
Years ended December 31, 2014 and 2013

3. Significant accounting policies (continued)

Financial assets at fair value through profit or loss:

An instrument is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's risk management or investment strategy. Upon initial recognition attributable transaction costs are recognized in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognized in the statement of comprehensive loss in the year in which they are incurred.

Held-to-maturity investments, loans and receivables and other financial liabilities:

Held-to-maturity investments, loans and receivables (which are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market), and other financial liabilities are initially recognized at fair value, net of directly attributable transaction costs, and are subsequently measured at amortized cost using the effective interest method. The Company classifies cash and accounts receivable as loans and receivables, and classifies accounts payable and accrued liabilities as other financial liabilities.

Available-for-sale financial assets:

Non-derivative financial assets may be designated as available for sale so long as they are not classified in another category above. Available-for-sale financial assets are initially recognized at fair value, net of directly attributable transaction costs, and are subsequently measured at fair value with changes in fair value recognized in other comprehensive income ("OCI"), net of tax. Transaction costs related to the purchase of available-for-sale assets are recognized in the statements of comprehensive loss. Amounts recognized in OCI for available-for-sale financial assets are charged to earnings when the asset is derecognized or when there is a significant or prolonged decrease in the value of the asset. The Company does not classify any assets as available for sale.

(ii) Share capital:

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

(i) Financing charges:

Financing charges comprises interest expense on bank borrowings, accretion on decommissioning obligations and accretion of deferred financing charges.

(j) Business combinations:

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the identifiable assets, liabilities and contingent liabilities acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized immediately in income. An acquisition is recorded on the date on which the Company obtains control of the acquired subsidiary or business. Acquisition related costs associated with business combinations are expensed as incurred.

Relentless Resources Ltd.

Notes to Financial Statements
Years ended December 31, 2014 and 2013

3. Significant accounting policies (continued)

(k) Tax:

Tax expense comprises current and deferred tax. Tax expense is recognized in income or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the financial position method, providing 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 not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination and at the time of transaction affects neither tax nor accounting income or loss. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied when the asset is realized or liability settled, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference 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.

(l) Loss per share:

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

(m) Flow-through shares:

The Company may finance a portion of its exploration activities through the issuance of flow-through common shares. Under the terms of the flow-through share agreements, the resource expenditure deductions for tax purposes are renounced to investors in accordance with the appropriate income tax legislation.

The proceeds from the sale of flow-through shares are allocated between the offering of shares and the sale of tax benefits. The allocation is made based on the difference between the fair market price of the existing shares and the amount the investor pays for the flow-through shares (given no other differences between the securities). A flow-through share liability is recognized for this difference. On a pro-rata basis, the previously recorded flow-through share liability is reduced and is credited to other income on the statement of comprehensive loss as qualifying expenditures are incurred.

(n) Fair value measurements:

The carrying value of cash, which is measured using level 1 inputs, accounts receivable, accounts payable and accrued liabilities approximate their fair values due to the short-term nature of those instruments.

Relentless Resources Ltd.

Notes to Financial Statements
Years ended December 31, 2014 and 2013

3. Significant accounting policies (continued)

- Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.
- Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

4. Significant accounting judgments, estimates and assumptions

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting year. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future years could be material. Estimates and judgments are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can materially differ from these estimates.

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) Accounts receivable:

Accounts receivable are recorded at the estimated recoverable amount. No allowance was required at December 31, 2014 (2013 – 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 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. Estimating reserves is very complex, requiring many judgments based on geological, geophysical, engineering and economic data. These estimates may change, having either a positive or negative impact on the statement of comprehensive loss as further information becomes available and as the economic environment changes.

Relentless Resources Ltd.

Notes to Financial Statements
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4. Significant accounting judgments, estimates and assumptions (continued)

(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 volumes are different from current forecast reserve volumes. This would generally result from significant changes in any of the factors or assumptions used in estimating reserves.

These factors could include:

- Changes in proved and probable reserves.
- Changes in estimates of future development costs.
- The effect on proved and probable reserves of differences between actual production as compared to forecasts.
- Unforeseen operational issues.

(d) Exploration and evaluation ("E&E") assets:

The decision to transfer assets from E&E to property, plant and equipment is based on the estimated proved and probable reserves which are in part used to determine a project's technical feasibility and commercial viability. The determination of future economic benefits requires judgment and estimates and assumptions may change as new information becomes available.

(e) 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.

(f) 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.

Relentless Resources Ltd.

Notes to Financial Statements
Years ended December 31, 2014 and 2013

4. Significant accounting judgments, estimates and assumptions (continued)

(g) Business combinations:

In a business combination, management makes estimates of the fair value of the assets acquired and liabilities assumed which includes assessing the value of the oil and gas properties based upon the estimation of recoverable quantities of proven and probable reserves being acquired.

(h) 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.

(i) 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 options and warrants, the expected volatility of the Company's shares, the expected life of the options and warrants, 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 and warrants is based on historical experience and estimates of the holder's behavior. 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 and warrants that will be forfeited and the rate is adjusted to reflect the actual number of options and warrants that actually vest.

(j) Taxes:

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

Relentless Resources Ltd.

Notes to Financial Statements
Years ended December 31, 2014 and 2013

5. Financial instruments

Risk Management

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 one petroleum marketer and one natural gas marketer so that the exposure to any one entity is minimized. Oil sales make up 72% of the Company's revenue and natural gas makes up the remaining 28% of revenue. The Company historically has not experienced any collection issues with its petroleum and natural gas marketers. Joint arrangement receivables are typically collected within one month of the joint arrangement bill being issued to the partner. The Company attempts to mitigate the risk from joint arrangement receivables by obtaining partner approval of significant capital expenditures prior to expenditure. The Company does not typically obtain collateral from joint arrangement 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 accounts receivable and financial derivative contracts. There were no receivables allowed for or written off for the year ended December 31, 2014 (2013 - \$nil).

(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. 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 quarterly, 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.

Relentless Resources Ltd.

Notes to Financial Statements
Years ended December 31, 2014 and 2013

5. Financial instruments (continued)

(ii) Foreign Currency Exchange Risk:

Foreign currency exchange rate risk is the risk that future cash flows will fluctuate as a result of changes in foreign exchange rates. Although substantially all of the Company's petroleum and natural gas sales are denominated in Canadian dollars, the underlying market prices in Canada for petroleum and natural gas are impacted by changes in the exchange rate between the Canadian and United States dollar. The Company had no forward exchange rate contracts or foreign denominated assets or liabilities in place as at or during the years ended December 31, 2014 and 2013.

(iii) Interest Rate Risk:

Interest rate risk is the 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 loss and comprehensive loss would have changed by \$30,000 during the year ended December 31, 2014 (2013 - \$7,000).

(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 liquidity to meet its liabilities when due without incurring unacceptable losses or risking harm to the Company's reputation. The Company prepares capital expenditures budgets which are regularly monitored and updated as considered necessary. As well, the Company utilizes authorizations for expenditures on both operated and non-operated projects to further manage capital expenditures. To facilitate the capital expenditure program, the Company has a demand operating facility which is reviewed annually by the lender. All financial liabilities are due within 12 months.

(d) Capital Management:

The Company's objective when managing capital is to maintain a capital structure which allows it to execute its growth strategy through strategic acquisitions and expenditures on exploration and development activities, while maintaining a strong balance sheet. The Company considers its capital structure to include working capital and shareholders' equity.

The Company manages its capital structure and makes adjustments by continually monitoring business conditions including: the current economic conditions; the risk characteristics of the Company's oil and natural gas assets; current and forecasted net debt levels; current and forecasted commodity prices; and other factors that influence commodity prices and funds from operations, such as quality and basis differentials, royalties, operating costs and transportation costs.

In order to maintain or adjust the capital structure, Relentless will consider: the current level of bank credit available from the Company's lenders; the sale of assets; limiting the size of the capital expenditure program; issuance of new equity if available on favourable terms.

Relentless Resources Ltd.

Notes to Financial Statements
Years ended December 31, 2014 and 2013

6. Property, plant and equipment (PP&E)

Cost:	PP&E Assets
Balance at December 31, 2012	\$5,638,116
Additions during the year	2,560,188
Dispositions during the year	(4,932,106)
Change in decommissioning obligations	1,307,006
Balance at December 31, 2013	\$4,573,204
Additions during the year	4,983,276
Acquisitions	3,301,535
Dispositions during the year	(134,309)
Change in decommissioning obligations	693,843
Balance at December 31, 2014	\$13,417,549
Depletion, depreciation and impairment:	
Balance at December 31, 2012	(\$3,237,680)
Dispositions	2,956,389
Depletion and depreciation for the year	(498,946)
Impairment	(1,590,393)
Balance at December 31, 2013	(\$2,370,630)
Impairment	(1,745,934)
Depletion and depreciation for the year	(1,002,526)
Balance at December 31, 2014	(\$5,119,090)
Net book value:	
Balance at December 31, 2013	\$2,202,574
Balance at December 31, 2014	\$8,298,459

Relentless Resources Ltd.

Notes to Financial Statements
Years ended December 31, 2014 and 2013

6. Property, plant and equipment (PP&E) (continued)

Acquisitions:

In accordance with IFRS, a property acquisition is accounted for as a business combination when certain criteria are met, such as the acquisition of inputs and processes to convert those inputs into beneficial outputs. The Company assessed these property acquisitions and determined that they constitute a business combination.

On May 23, 2014, 1819113 Alberta Ltd. "1819113" a company wholly owned by certain directors and officers of Relentless, completed the purchase of approximately 127 boe/d of conventional producing P&NG assets from a private company, subject to industry standard closing adjustments.

Relentless had the exclusive right to acquire the assets from 1819113 or its common shares and loans payable. On June 27, 2014 Relentless exercised its right to acquire the assets from 1819113 with an effective date of May 23, 2014.

The following table summarizes the transaction and the purchase price allocation:

Consideration paid	\$	2,605,760
<hr/>		
Net assets acquired, at estimated fair value		
Petroleum and natural gas interests	\$	3,723,192
Decommissioning liabilities assumed		(1,117,432)
	\$	2,605,760

From the date of acquisition to December 31, 2014, the P&NG assets acquired contributed approximately \$1,091,142 of production revenue and \$596,939 of earnings before interest and tax to the Company. The Company incurred acquisition related costs of \$36,290 relating to due diligence, financing arrangements and legal fees. These costs have been expensed and included in general and administrative costs on the statement of comprehensive loss. If the acquisition has been effective January 1, 2014, the Company would have realized an estimated \$1,870,529 of production revenue and an estimated additional \$1,023,324 of profit before tax.

Relentless Resources Ltd.

Notes to Financial Statements
Years ended December 31, 2014 and 2013

6. Property, plant and equipment (PP&E) (continued)

On June 12, 2014, the Company acquired 100% working interest in one producing well and three non-producing wells in the Heathdale area of Alberta.

The following table summarizes the transaction and the purchase price allocation:

Consideration paid	\$	695,775
Net assets acquired, at estimated fair value		
Petroleum and natural gas interests	\$	1,126,564
Decommissioning liabilities assumed		(430,789)
	\$	695,775

From the date of acquisition to December 31, 2014, the P&NG assets acquired contributed approximately \$610,667 of production revenue and \$358,115 of earnings before interest and tax to the Company. If the acquisition has been effective January 1, 2014, the Company would have realized an estimated \$1,046,857 of production revenue and an estimated additional \$444,809 of profit before tax.

Collateral:

At December 31, 2014, and 2013, all of the Company's properties are pledged as collateral for the bank debt.

Depletion:

At December 31, 2014 estimated future costs to develop the proved plus probable reserves of \$108,000 (2013 - \$36,000) were added to property, plant and equipment for depletion and depreciation purposes.

Impairments:

At December 31, 2014, the Company evaluated its PP&E assets for impairment and recorded an impairment of \$1,745,934 on the Willesden Green, Heathdale, Niton, and COGI CGU's. The impairment was based on the difference between the net book value of the assets and the recoverable amount. The recoverable amount was determined using fair value less costs to sell (2%) based on discounted cash flows of proved plus probable reserves using forecast future prices and a discount rate of 15%. The CGU's were written down to their recoverable amount based on the future value of cash flows less costs to sell.

At March 31, 2013, the Company evaluated its PP&E assets for impairment and recorded an impairment of \$342,728 on the Loverna, Saskatchewan CGU. The impairment was made for drilling costs incurred on a well in which the Company ultimately went penalty on and lost its working interest in. The impairment was based on the difference between the net book value of the assets and the recoverable amount. The recoverable amount was determined using fair value less costs to sell (2%) based on discounted cash flows of proved plus probable reserves using forecast future prices and a discount rate of 15%. The Loverna CGU was written down to its recoverable amount based on the future value of cash flows less costs to sell.

At December 31, 2013, the Company evaluated its PP&E assets for impairment and recorded an impairment of \$1,247,655 on the Willesden Green CGU due to decommissioning additions of \$1,309,176 to the CGU during the year. 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 costs to sell based on discounted cash flows of proved plus probable reserves using forecast future prices and a discount rate of 15%.

Relentless Resources Ltd.

Notes to Financial Statements
Years ended December 31, 2014 and 2013

6. Property, plant and equipment (PP&E) (continued)

As a result of reduced forward commodity price outlook for natural gas and widening price differential for crude oil, impairment tests were carried out at December 31, 2014 and were based on the following commodity price estimates:

Year	WTI Crude Oil (\$US/bbl)	Edmonton Light Crude Oil (Cdn\$/bbl)	Natural Gas AECO (\$Cdn/MMBtu)	Exchange Rate (\$US/\$Cdn)
2015	65.00	70.35	3.32	0.850
2016	80.00	87.36	3.71	0.870
2017	90.00	98.28	3.90	0.870
2018	91.35	99.75	4.47	0.870
2019	92.72	101.25	5.05	0.870
2020	94.11	103.85	5.13	0.870
2021	95.52	105.40	5.22	0.870
2022	96.96	106.99	5.31	0.870
2023	98.41	108.59	5.40	0.870
2024	99.89	110.22	5.49	0.870
2025	101.38	111.87	5.58	0.870
Remainder	+1.5%/year	+1.5%/year	+1.5%/year	0.870

Source: Sproule, effective December 31, 2014

7. Flow through share liability

Balance at December 31, 2012	\$192,000
Settlement of flow through share liability	(192,000)
<hr/>	
Balance at December 31, 2013	-
Liability incurred on flow through shares issued in 2014 (Note 11)	471,890
Settlement of flow through share liability (Note 11)	(166,667)
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Balance at December 31, 2014	\$305,223

As a result of the flow-through share issuance in December of 2014, the Company recorded a flow-through share premium liability of \$305,223 with an offsetting adjustment to share capital.

During the year ended December 31, 2013, the Company made expenditures of \$676,219 out of a required \$800,000 under the flow through share program noted above. As a result of the spending shortfall, the Company is required to pay Part XII.6 tax of \$14,224 and reimburse investors a total of \$61,890 resulting in a total liability of \$76,114. The \$14,224 in tax has been paid and \$61,890 is included in accounts payable and accrued liabilities as at December 31, 2014 (2013 - \$76,114).

Relentless Resources Ltd.

Notes to Financial Statements
Years ended December 31, 2014 and 2013

8. Demand operating facility

On August 15, 2014, the Company increased its demand operating loan facility from \$700,000 to \$3,000,000. The facility is available until May 31, 2015 at which time it may be extended, at the lenders option. Interest payable on amounts drawn under the facility is at the lenders' prime rate plus 1.375 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, 2014 and 2013, the Company had not drawn on the loan facility.

For the year ended December 31, 2014, the Company incurred \$9,800 (2013 – \$2,500) in transaction costs associated with renegotiating the annual credit facility. The amount is included in finance expense on the statement of comprehensive loss.

9. Decommissioning obligations

A reconciliation of the decommissioning obligations is provided below:

	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Balance, beginning of year	\$1,626,558	\$303,172
Additions - drilled	141,264	39,534
Additions – acquired	1,548,222	1,339,591
Dispositions	(126,123)	(129,566)
Change in estimate	553,502	57,447
Accretion	47,599	16,380
Balance, end of year	<u>3,791,022</u>	<u>1,626,558</u>
Less current portion of decommissioning obligations	<u>(43,105)</u>	<u>(158,208)</u>
Decommissioning obligations	<u>\$3,747,917</u>	<u>\$1,468,350</u>

The total undiscounted amount of the estimated cash flows required to settle the decommissioning obligations is approximately \$3,805,872(2013 - \$1,841,776) which will be incurred over the next 30 years (2013 – 30 years) with the majority of costs to be incurred between 2016 and 2042. An average risk-free rate of 1.48% (2013 – 2.02%) and an inflation rate of 2.00% (2013 –2.00%) were used to calculate the net present value of the decommissioning obligations. Accretion expense is included in finance expense on the statement of comprehensive loss.

Relentless Resources Ltd.

Notes to Financial Statements
Years ended December 31, 2014 and 2013

10. Deferred taxes

The provision for deferred taxes is different from the amount computed by applying the combined statutory Canadian federal and provincial tax rates to pre-tax income for the period.

The tax on the Company's income before tax differs from the amount that would arise using the average tax rate applicable to profits of the Company as follows:

	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Loss before tax	(\$2,613,910)	(\$1,690,666)
Combined federal and provincial tax rate	25.0%	25.5%
Expected tax recovery	(653,478)	(431,120)
Tax effects of:		
Non-deductible expenses	144,359	4,003
Flow through share renunciation, net of non-deductible indemnification costs and penalties	208,333	135,753
Impact of future tax rate changes and other	295,906	34,589
Share issuance costs	(35,317)	
Changes in unrecognized deferred tax assets	40,197	256,775
Deferred tax expense (recovery)	<u>-</u>	<u>-</u>

The combined federal and provincial tax rate has been reduced from 25.5% to 25.0% due the disposition of the Company's assets in Saskatchewan in 2013.

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:

	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Property, plant and equipment	\$(620,093)	\$111,104
Decommissioning obligations	947,756	406,640
Share issue costs	33,810	13,507
Non-capital loss carry forwards	607,878	397,903
Unrecognized deferred tax assets	(969,351)	(929,154)
Deferred tax asset (liability)	<u>\$ -</u>	<u>\$ -</u>

The Company's non-capital losses expire as follows:

	<u>December 31, 2014</u>	<u>December 31, 2013</u>
2028	\$ 773,349	\$ 773,349
2029	348,535	348,535
2030	237,852	237,852
2032	6	6
2033	231,871	231,871
2034	839,899	-
	<u>\$2,431,512</u>	<u>\$1,591,613</u>

Relentless Resources Ltd.

Notes to Financial Statements
Years ended December 31, 2014 and 2013

11. Share capital

(a) Authorized

The authorized share capital of the Company is comprised of an unlimited number of voting common shares and preferred shares.

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

	December 31, 2014		December 31, 2013	
	Shares	Amount	Shares	Amount
Balance, beginning of year	30,025,085	\$6,925,722	30,025,085	\$6,927,571
Warrants expired	-	-	-	(1,849)
Exercise of stock options	235,000	54,349	-	-
Issuance of common shares	33,499,010	7,046,965	-	-
Flow through share premium	-	(471,890)	-	-
Share issuance costs	-	(141,268)	-	-
Balance, end of year	63,759,095	13,413,878	30,025,085	\$6,925,722

On February 11, 2014, the Company closed a non-brokered private placement offering of units, by issuing 4,285,714 units at a price of \$0.105 per unit for gross proceeds of \$450,000. Share issuance costs were \$26,820 resulting in net proceeds of \$423,180.

Each unit comprises one common share and one-half of a share purchase warrant of the Company, resulting in the issuance of 4,285,714 common shares and 2,142,856 warrants under the offering. Subject to vesting, each whole warrant is exercisable into one common share until February 10, 2019, at a price of \$0.14 per share. The warrants vest and become exercisable as to one-third upon the 20-day weighted-average trading price of the common shares equalling or exceeding \$0.20, an additional one-third upon the market price equalling or exceeding \$0.25, and a final one-third upon the market price equalling or exceeding \$0.30. All securities issued under the offering, including the common shares issuable upon exercise of the warrants, and are subject to a four-month-plus-a-day hold period from the date of issuance expiring February 11, 2019, in accordance with applicable securities laws.

On June 30, 2014, Relentless closed a non-brokered private placement for gross proceeds of \$3,750,000. The Company issued 4,166,666 common shares on a flow-through basis at 24 cents per share and 13,750,000 million common shares at 20 cents per common share. Share issuance costs were \$50,167 resulting in net proceeds of \$3,699,743.

As a result of the flow-through share issuance in June of 2014, the Company recorded a flow-through share premium liability of \$166,667 with an offsetting adjustment to share capital. At December 31, 2014, the Company had expended \$1,000,000 on eligible flow-through expenditures and \$166,667 was credited to other income on settlement of the flow-through share liability.

On December 12 and 18, 2014, Relentless closed a non-brokered private placement for gross proceeds of \$2,846,965. The Company issued 6,782,740 common shares on a flow-through basis at 27 cents per share for gross proceeds of \$1,831,340 and 4,513,890 common shares at 22.5 cents per common share for gross proceeds of \$1,015,625. Share issuance costs were \$64,281 resulting in net proceeds of \$2,782,684.

As a result of the flow-through share issuance in December of 2014, the Company recorded a flow-through share premium liability of \$305,223 with an offsetting adjustment to share capital. At December 31, 2014 the Company has a commitment to spend \$1,831,340 on eligible flow through expenditures in 2015.

Relentless Resources Ltd.

Notes to Financial Statements
Years ended December 31, 2014 and 2013

12. Warrants

	December 31, 2014		December 31, 2013	
	Warrants	Amount	Warrants	Amount
Balance, beginning of year	-	-	66,750	-
Warrants expired	-	-	(66,750)	-
Warrants issued (note 11)	2,142,856	-	-	-
Balance, end of year	2,142,856	-	-	-

As at December 31, 2014, 2,142,856 fully vested warrants (2013 – nil) remain outstanding.

13. Share based compensation

Stock options

The Company has a stock option plan (the “Plan”) for its officers, directors, employees and consultants. Under the Plan, the Company may grant options for up to 10% of the outstanding common shares. The options have a five year term and vest immediately. The exercise price of each option granted equals the market price of the Company’s stock immediately preceding the date of grant. The policies of the TSX Venture Exchange require “rolling” stock option plans to be approved on an annual basis by the shareholders of a listed issuer. The number and weighted average exercise prices of share options for the years ended December 31, 2014 and 2013 are as follows:

	2014		2013	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding, beginning of year	2,762,500	\$0.19	1,612,500	\$0.20
Expired	(100,000)	-	-	-
Exercised	(235,000)	-	-	-
Granted	2,818,580	\$0.26	1,150,000	\$0.17
Outstanding at year end	5,246,080	\$0.22	2,762,500	\$0.19
Exercisable at year end	5,246,080	\$0.22	2,762,500	\$0.19

The Company's board of directors approved the following issuance of stock options. The options vest immediately and are being issued to officers and directors of the Company in accordance with the Company's stock option plan:

- February 3, 2014 – options to purchase 240,000 common shares of the Company at a price of \$0.14, exercisable until February 2, 2019.
- February 11, 2014 – options to purchase 428,580 common shares of the Company at a price of \$0.19 per share, exercisable until February 11, 2019.
- June 27, 2014 – options to purchase 200,000 common shares of the Company at a price of \$0.30 per share, exercisable until June 27, 2019.
- October 27, 2014 - options to purchase 1,950,000 common shares of the Company at a price of \$0.28 per share, exercisable until October 27, 2019.

Relentless Resources Ltd.

Notes to Financial Statements
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13. Share based compensation (continued)

On April 22, 2014, a former director exercised 110,000 stock options at a price of \$0.10 per share for proceeds of \$11,000. On April 23, 2014, a former officer exercised 125,000 stock options at prices of \$0.16 and \$0.165 per share for proceeds of \$20,250.

The range of exercise prices of the outstanding options at December 31, 2014 is as follows:

	Options outstanding	Weighted average contractual life (years)
0.10	677,500	0.7
0.30	650,000	1.3
0.17	1,100,000	3.0
0.14	240,000	4.1
0.19	428,580	4.1
0.30	200,000	4.5
0.28	1,950,000	4.8
\$ 0.10 to 0.30	5,246,080	3.23

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

	February 3, 2014 option grant	February 11, 2014 option grant	June 27, 2014 option grant	October 27, 2014 option grant	2013
Fair value at grant date	\$0.14	\$0.16	\$0.26	\$0.22	\$0.14
Share price	\$0.17	\$0.19	\$0.30	\$0.28	\$0.17
Exercise price	\$0.14	\$0.19	\$0.30	\$0.28	\$0.17
Volatility	129%	129%	150%	108%	120%
Option life	5 years	5 years	5 years	5 years	5 years
Dividends	-%	-%	-%	-%	-%
Risk-free interest rate	1.91%	1.91%	1.82%	1.73%	1.73%
Forfeiture rate	-%	-%	-%	-%	-%

14. Contributed surplus

	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Balance, beginning of year	\$804,810	\$640,422
Warrants expired	-	1,849
Exercise of stock options	(23,099)	-
Share based compensation	577,434	162,539
Balance, end of year	<u>\$1,359,145</u>	<u>\$804,810</u>

Relentless Resources Ltd.

Notes to Financial Statements
Years ended December 31, 2014 and 2013

15. Other income (loss)

	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Flow through share premium (note 11)	\$166,667	\$192,000
Proceeds from untendered shares	-	146,842
Flow through share indemnity (note 7)	-	(61,890)
Part XII.6 tax (note 7)	-	(14,224)
Total	<u>\$166,667</u>	<u>\$262,728</u>

In 2013, as a result of a Plan of Arrangement carried out in 2006, on the seventh anniversary of the closing of the Plan of Arrangement, the Company was refunded \$146,842 for shares untendered to the offer. A total of 734,211 shares were untendered at a price of \$0.20 per share.

16. Loss per share

	<u>Year ended December 31, 2014</u>	<u>Year ended December 31, 2013</u>
Net and comprehensive loss for the year	(\$2,613,910)	(\$1,690,666)
Net and comprehensive loss per share, basic and diluted	(\$0.06)	(\$0.06)
Weighted average shares outstanding	<u>43,600,203</u>	<u>30,025,085</u>

17. Related party transactions

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

Key Management Compensation

Key management include all officers and directors of the Company.

	<u>Year ended December 31, 2014</u>	<u>Year ended December 31, 2013</u>
Consulting fees	\$209,592	\$164,660
Share based compensation	577,434	162,539
	<u>\$787,026</u>	<u>\$327,199</u>

At year end, included in accounts payable and accrued liabilities is \$31,166(2013 - \$8,068).

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18. Supplemental cash flow information

	Year ended December 31, 2014	Year ended December 31, 2013
Change in non-cash working capital items:		
Accounts receivable	(\$471,804)	\$35,963
Prepaid expenses and deposits	114,242	(111,388)
Accounts payable and accrued liabilities	993,396	16,739
	<u>\$635,834</u>	<u>(\$58,686)</u>
Amount related to operating activities	\$129,541	(\$35,815)
Amount related to investing activities	506,293	(22,871)
	<u>\$635,834</u>	<u>(\$56,686)</u>

19. Revenue by product

	Year ended December 31, 2014	Year ended December 31, 2013
Oil revenue	\$2,143,350	\$1,007,089
Natural gas revenue	849,680	326,785
Total revenue	<u>\$2,993,030</u>	<u>\$1,333,874</u>

20. Flow through share indemnification expense

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. The \$1,000,000 was renounced to the investors as deemed CEE under the look-back rules on December 31, 2010.

In Q1 and Q2 2011 the Company drilled a well at Loverna with drilling and completion costs totalling \$1,598,719.

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 \$1,000,000 was renounced to the investors as deemed CEE on December 31, 2011.

In Q4 2011 the Company drilled a second well at Loverna with drilling and completion costs totalling \$1,508,679.

In Q1 2014 Canada Revenue Agency ("CRA") performed an audit of the Company's flow through share issuances in 2010 and 2011. CRA ruled that even though the renunciations of \$1,000,000 were made in two separate years, the actual expenditures were all made in 2011 and therefore only \$1,000,000 of deemed CEE is allowed.

The outcome of the reassessment totals \$350,186. This amount was set up in December, 2014 as a current expense and accounts payable.

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21. Subsequent event

On April 21, 2015, the Company renewed its demand operating loan facility increasing it from \$3,000,000 to \$4,000,000. The facility is available until May 31, 2016 at which time it may be extended, at the lenders option. Interest payable on amounts drawn under the facility is at the lenders' prime rate plus 1.375 percent. The credit facility is collateralized by a general security agreement and a first ranking charge on all lands of the Company.