



FINANCIAL STATEMENTS
FOR THE
YEARS ENDED DECEMBER 31, 2010 and 2009



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Independent Auditor's Report

**To the shareholders of
Relentless Resources Ltd.**

We have audited the accompanying financial statements of Relentless Resources Ltd., which comprise the balance sheets as at December 31, 2010 and 2009, and the statements of net and comprehensive loss and deficit 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 Canadian generally accepted accounting principles 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 audits 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 auditor's 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 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, 2010 and 2009, and the results of its operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

BDO Canada LLP

Chartered Accountants

Calgary, Alberta

April 26, 2011

RELENTLESS RESOURCES LTD.
BALANCE SHEETS

AS AT DECEMBER 31	2010	2009
ASSETS		
CURRENT ASSETS		
Cash	\$ 1,386,005	\$ 3,954
Accounts receivable (note 5)	131,292	194,438
Prepaid expenses	15,691	68,361
	1,532,988	266,753
PETROLEUM AND NATURAL GAS PROPERTIES (note 6)	1,622,959	2,347,484
	\$ 3,155,947	\$ 2,614,237
LIABILITIES		
CURRENT		
Bank indebtedness (note 7)	\$ -	\$ 370,000
Accounts payable and accrued liabilities (note 5)	181,143	354,913
Loan payable (note 5)	-	610,000
Contingent liability	-	20,000
	181,143	1,354,913
ASSET RETIREMENT OBLIGATION (note 8)	183,543	573,576
	364,686	1,928,489
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (note 9)	5,588,016	3,230,411
CONTRIBUTED SURPLUS (note 10)	464,535	410,179
DEFICIT	(3,261,290)	(2,954,842)
	2,791,261	685,748
	\$ 3,155,947	\$ 2,614,237

Subsequent events – note 17

See accompanying notes to the financial statements.

Approved on behalf of the Board

Director (signed) *Dan T. Wilson*

Director (signed) *Thomas W. Robinson*

RELENTLESS RESOURCES LTD.
STATEMENTS OF NET AND COMPREHENSIVE LOSS AND DEFICIT

YEARS ENDED DECEMBER 31	2010	2009
RESOURCE REVENUE		
Revenue	\$ 492,824	\$ 731,098
Royalties	(6,750)	(37,179)
	<u>486,074</u>	<u>693,919</u>
Interest income	15,253	3,306
	<u>501,327</u>	<u>697,225</u>
EXPENSES		
Amortization, depletion and accretion	257,885	441,165
Interest and bank charges	35,580	82,222
Operating	200,532	488,668
General administration (note 5)	459,905	338,053
Stock-based compensation (note 9)	49,373	-
	<u>1,003,275</u>	<u>1,350,108</u>
LOSS BEFORE THE FOLLOWING ITEMS	(501,948)	(652,883)
OTHER INCOME		
Gain on sale of resource property (note 6)	195,500	219,532
	<u>(306,448)</u>	<u>(433,351)</u>
LOSS BEFORE INCOME TAXES	(306,448)	(433,351)
INCOME TAX RECOVERY (note 12)		
Current	-	2,538
	<u>(306,448)</u>	<u>(430,813)</u>
NET and COMPREHENSIVE LOSS	(306,448)	(430,813)
DEFICIT, beginning of year	<u>(2,954,842)</u>	<u>(2,524,029)</u>
DEFICIT, end of year	<u>\$ (3,261,290)</u>	<u>\$ (2,954,842)</u>
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	14,773,497	11,839,250
LOSS PER SHARE (note 11)	<u>\$ (0.02)</u>	<u>(0.04)</u>

See accompanying notes to the financial statements.

RELENTLESS RESOURCES LTD.
STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Net and comprehensive loss	\$ (306,448)	\$ (430,813)
Items not affecting cash		
Amortization, depletion and accretion	257,885	441,165
Stock-based compensation	49,373	-
Gain on sale of resource properties	(195,500)	(219,532)
	(194,690)	(209,180)
Change in non-cash working capital items	(77,954)	49,821
	(272,644)	(159,359)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds on disposal of petroleum and natural gas properties	1,227,326	790,000
Purchase of petroleum and natural gas properties	(905,219)	(79,535)
	322,107	710,465
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of common shares	2,312,588	-
Bank loan payment	(370,000)	(507,152)
Repayment of loan payable	(610,000)	(40,000)
	1,332,588	(547,152)
CHANGE IN CASH	1,382,051	3,954
CASH, beginning of year	3,954	-
CASH, end of year	\$ 1,386,005	\$ 3,954
OTHER INFORMATION		
Interest paid	\$ 35,580	\$ 82,222
Interest received	\$ 15,253	\$ 3,306
Income taxes received	\$ -	\$ 2,538

Non-cash transaction – note 9

See accompanying notes to the financial statements.

RELENTLESS RESOURCES LTD.
NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2010 AND 2009

1. NATURE OF OPERATIONS

Relentless Resources Ltd. (“Relentless” or “the Company”) 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. The Company's principal business activity is the exploration for, development and production of oil and gas properties in Alberta and Saskatchewan.

The Company has had a history of operating losses and has disposed of a significant portion of its producing properties during the year. The Company has, however, been successful in raising additional equity financing and management believes that the Company has sufficient funds to continue in business for the next fiscal year. Ultimately, however, the Company will either require additional financing or to attain profitable operations.

2. CHANGE IN ACCOUNTING POLICY

(a) Business Combinations

Section 1582, Business Combinations provides the Canadian equivalent to International Financial Reporting Standard IFRS 3, “Business Combinations” and replace the existing Section 1581, Business Combinations. The new Section 1582 will apply prospectively to business combinations for which the acquisition date is on or after January 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal year, in which case an entity would also early adopt Section 1601, Consolidated Financial Statements and Section 1602, Non-Controlling Interests.

(b) Consolidated Financial Statements and Non-controlling Interests

Section 1601, Consolidated Financial Statements establishes standards for the preparation of consolidated financial statements and replaces the previous Section 1600, Consolidated Financial Statements.

Section 1602, Non-controlling Interests establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination.

The adoption of these standards had no impact on these financial statements.

RELENTLESS RESOURCES LTD.
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3. **RECENT ACCOUNTING PRONOUNCEMENTS**

International Financial Reporting Standards

Commencing January 1, 2011, publicly accountable enterprises will be required to prepare interim and annual financial statements using International Financial Reporting Standards (“IFRS”). As a result, the Company will first report its’ financial statements, prepared in accordance with IFRS, for the quarter ended March 31, 2011. The Company will also provide comparative data on an IFRS basis, including an opening statement of financial position at January 1, 2010.

4. **SIGNIFICANT ACCOUNTING POLICIES**

These financial statements have been prepared using the historical cost basis in accordance with Canadian generally accepted accounting principles. These financial statements have, in management's opinion, been properly prepared within the framework of the accounting policies summarized as follows:

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. By their nature, these estimates are subject to measurement uncertainty. The effect of changes in such estimates on the financial statements in future periods could be significant. Accounts specifically affected by estimates in these financial statements are accounts receivable, petroleum and natural gas properties, accounts payable and accrued liabilities, asset retirement obligation and stock-based compensation.

Cash

Cash consists of balances with financial institutions.

Petroleum and natural gas properties

The Company follows the full cost method of accounting for oil and gas operations whereby all costs of exploring for and developing oil and gas reserves are capitalized whether successful or not. Such costs include land acquisitions, geological and geophysical costs, carrying charges on non-producing properties, costs of drilling both productive and non-productive wells, production equipment, asset retirement costs and the portion of general and administrative expenses directly attributable to exploration and development activities.

Proceeds from the sale of petroleum and natural gas properties are applied against capitalized costs, with no gain or loss recognized unless such a sale would alter the rate of depletion by greater than 20 percent.

RELENTLESS RESOURCES LTD.
NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2010 AND 2009

4. **SIGNIFICANT ACCOUNTING POLICIES (continued)**

Amortization and depletion

Amortization and depletion of petroleum and natural gas properties and equipment is provided for using the unit-of-production method based on estimated proven petroleum and natural gas reserves before any royalty deductions as determined by independent engineers. For the purpose of this calculation, petroleum and natural gas reserves are converted to a common unit of measurement on the basis of their relative energy content where six thousand cubic feet of gas equates to one barrel of oil. Costs of acquiring and evaluating unproven properties are excluded from costs subject to amortization and depletion until it is determined whether proven reserves are attributable to the properties or impairment occurs.

Other property, plant and equipment are recorded at cost and amortized at an annual rate of 20 percent using declining balance method.

Asset retirement obligation

The fair value of an asset retirement obligation is recognized in the period in which the obligation is incurred provided it can be reasonably measured, and is discounted to its present value using the Company's credit adjusted risk-free interest rate. The fair value of the estimated obligation is recorded as a long term liability, with a corresponding increase in the carrying amount of the related asset. The costs capitalized to the related assets are amortized to earnings in a manner consistent with the depletion and amortization of the underlying asset. The liability amount is increased in each reporting period due to passage of time and the amount of accretion is charged to earnings in the period. Revisions to the estimated timing of cash flows or to the original estimated undiscounted costs could also result in an increase or decrease to the obligation. Actual costs incurred upon settlement of the retirement obligation are charged against the obligation to the extent of the liability recorded.

Ceiling test

The net amount at which petroleum and natural gas properties are carried is subject to a cost recovery test (the "ceiling test"). Under this test, an estimate is made of the total amount that is recoverable based on expected cash flows at undiscounted future prices. If the carrying amount exceeds the ultimate recoverable amount, an impairment loss is recognized in net earnings. The impairment loss is limited to the amount by which the carrying amount exceeds: (i) the sum of the fair value of proved and probable reserves; and (ii) the costs of unproved properties that have been subject to a separate impairment test and contain no probable reserves.

Joint ventures

A portion of the Company's exploration, development and production activities are conducted jointly with others and, accordingly, these financial statements reflect only the Company's proportionate interest in such activities.

RELENTLESS RESOURCES LTD.
NOTES TO THE FINANCIAL STATEMENTS

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4. **SIGNIFICANT ACCOUNTING POLICIES (continued)**

Revenue recognition

Revenues associated with sales of crude oil, natural gas, and natural gas liquids are recorded when the products are delivered. Delivery occurs when the customer has taken title and has assumed the risks and rewards of ownership, prices are fixed or determinable and collectability is reasonably assured. Royalty revenues are recognized when they become receivable. The Company does not enter into ongoing arrangements whereby it is required to repurchase its products, nor does the Company provide the customer with a right of return.

Interest income is recognized in the period it is earned.

Future income taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, the Company records future income taxes for the effect of any difference between the accounting and income tax basis of an asset or liability, using the substantively enacted income tax rates. Accumulated future income tax balances are adjusted to reflect changes in income tax rates that are substantively enacted with the adjustment being recognized in earnings in the period that the change occurs. Future tax assets are recognized to the extent that they are more likely than not to be realized.

Loss per share

The calculation of basic loss per share is based on net earnings divided by the weighted average number of common shares outstanding.

The treasury stock method of calculating diluted per share amounts is used whereby any proceeds from the exercise of stock options or other dilutive instruments are assumed to be used to purchase common shares at the average market price during the period. In addition, diluted common shares also include the effect of the potential exercise of any outstanding warrants.

Financial instruments

The Company's financial instruments are initially recorded at fair market value, except for certain related party transactions, with subsequent measurement based on their classification.

The Company has classified their financial instruments into the following categories:

Cash is classified as "held-for-trading". It is measured at fair value and changes in fair value are recognized in earnings.

Accounts receivable is classified as "loans and receivables" and is measured at amortized cost, which is generally the amount on initial recognition less an allowance for doubtful accounts.

RELENTLESS RESOURCES LTD.
NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2010 AND 2009

4. **SIGNIFICANT ACCOUNTING POLICIES (continued)**

Accounts payable and accrued liabilities, bank indebtedness and loan payable are classified as “other financial liabilities” and are measured at amortized cost.

Transaction costs are included in the initial carrying amount of financial instruments except for held-for-trading items, in which case they are expensed as incurred.

RELENTLESS RESOURCES LTD.
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Stock-based compensation

The Company has a stock-based compensation plan, which is described in note 9. Awards of options under this plan are expensed based on the fair value of the options at the grant date and credited to contributed surplus. Fair values are determined using the Black-Scholes option-pricing model. If the options are subject to a vesting period, the expense is recognized over this period. Any consideration paid by employees on exercise of stock options or purchase of stock is credited to share capital plus the amounts originally recorded as contributed surplus.

Flow-through shares

The resource expenditure deductions for income tax purposes related to exploratory and development activities funded by flow-through share arrangements are renounced to investors in accordance with tax legislation. A future tax liability is generated when the renouncements related to the corresponding exploration and development expenditures are filed with the tax authorities.

5. RELATED PARTY TRANSACTIONS

During the year, the Company paid \$108,606 (2009 - \$68,655) for office and administrative expenses, to a company related by a common control person and a common director; \$168,823 (2009 - \$72,500) was paid for management consulting services to companies controlled by directors; \$15,772 (2009 - \$43,777) was paid to a company controlled by a related party for interest on short-term loans; and \$34,754 (2009 - \$73,278) was paid to a law firm who employs a former director of the Company. These transactions are in the normal course of operations and have been valued in these financial statements at the exchange amount which is the amount of consideration established and agreed to by the related parties.

On March 1, 2010, the Company sold its interest in various producing properties for \$1,250,000, before closing adjustments, to a related party. The parties were related with a common shareholder and director. The agreed to exchange amount was supported by a report from an independent reservoir engineer.

In November 2009, the Company sold its interest in a natural gas property for \$790,000 to a related party, related by a common control person and a former common director. The agreed to exchange amount was supported by an independent third party valuation.

5. RELATED PARTY TRANSACTIONS (continued)

A term loan from a related party, which bore interest at prime plus four percent, and was not collateralized, was repaid during the year from the proceeds of the property sale. The parties were related with a common shareholder and director.

Included in accounts receivable is \$2,599 (2009 - \$23,491), accounts payable and accrued liabilities is \$13,506 (2009 - \$109,324) and a loan payable of \$nil (2009 - \$610,000) is owed to

RELENTLESS RESOURCES LTD.
NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2010 AND 2009

related parties with common director and shareholders.

6. PETROLEUM AND NATURAL GAS PROPERTIES

	2010		
	Cost	Accumulated amortization and depletion	Net
Petroleum and natural gas properties	\$ 6,895,568	\$ 5,272,609	\$ 1,622,959
	2009		
	Cost	Accumulated amortization and depletion	Net
Petroleum and natural gas properties	\$ 6,186,717	\$ 3,839,233	\$ 2,347,484

The estimated value of undeveloped lands excluded from costs subject to depletion was \$575,027 at December 31, 2010 (2009 – \$nil).

During 2010 and 2009, the Company disposed of certain oil and natural gas producing properties, as referred to in note 5. Crediting the sale proceeds to the carrying value of the properties would have changed the depletion rate greater than 20 percent, as a result, the Company recognized a gain in 2010 of \$195,500 (2009 - \$219,532).

The Company performed a ceiling test calculation at December 31, 2010 and 2009 resulting in the undiscounted cash flows from proved reserves and the lower of cost or market of unproved properties exceeding the carrying value of oil and gas assets. The following independent reserve engineering prices and inflation rates were used to perform the ceiling test in 2010:

RELENTLESS RESOURCES LTD.
NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2010 AND 2009

6. **PETROLEUM AND NATURAL GAS PROPERTIES (continued)**

	Edmonton Crude Oil (\$Cdn/bbl)	AECO Natural Gas (\$Cdn/ MMBtu)
2011	86.22	3.92
2012	89.29	4.42
2013	90.92	4.87
2014	92.96	5.20
2015	96.19	5.52

Prices increase at a rate of approximately 2.0 percent per year for oil, natural gas and natural gas liquids after 2015. Adjustments were made to the benchmark prices, for purposes of the ceiling test, to reflect varied delivery points and quality differentials in products delivered.

7. **BANK LOAN**

The Company has a demand revolving operating loan facility with a Canadian commercial bank. At December 31, 2010, the credit facility available was \$275,000 (2009 - \$900,000). This credit facility bears interest at bank prime plus 1.75 percent (2009 – prime plus 2.0 percent) and is collateralized by a general security agreement and a general assignment of all lands.

8. **ASSET RETIREMENT OBLIGATION**

The estimated cash flows of asset retirement obligations have been discounted at 5.0 percent (2009 - 5.0 percent). The total undiscounted amount of the estimated cash flows required to settle the obligations is \$204,222 (2009 - \$693,186). Payments to settle the obligation occur on an ongoing basis and will continue over the life of the operating assets, which is estimated to be an average of ten years.

The following table reconciles the Company's total asset retirement obligations:

	2010	2009
Balance, beginning of year	\$ 573,576	\$ 483,994
Change in accounting estimate	-	25,716
Liabilities incurred	94,464	50,507
Liabilities disposed	(493,773)	(13,201)
Accretion expense	9,276	26,560
Balance, end of year	<u>\$ 183,543</u>	<u>\$ 573,576</u>

RELENTLESS RESOURCES LTD.
NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2010 AND 2009

9. **SHARE CAPITAL**

Authorized:

Unlimited number of common voting shares, without nominal or par value.

Unlimited number of preferred shares, without nominal or par value, issuable in series. The directors are authorized to fix the number of shares in each series and to determine the designation, rights, privileges, restrictions and conditions attached to the shares of each series.

Common shares issued:

	Number	Amount
Balance, December 31, 2009 and 2008	23,678,500	\$ 3,230,410
Share issue – April 12, 2010	6,000,000	300,000
Share consolidation – two for one, June 9, 2010	(14,839,250)	-
Shares issued		
- for cash	5,500,000	1,100,000
- for property	500,000	50,000
- as flow-through	3,333,335	1,000,000
Share issuance fees	-	(92,395)
	24,172,585	\$ 5,588,010

On April 12, 2010, Relentless completed a private placement of 6,000,000 common shares at a price of \$0.05 per share for total cash proceeds of \$300,000. Finder's fees of \$10,500 were paid and recorded as share issuance costs.

Effective June 9, 2010 the Company consolidated its share capital on a two for one basis. On June 11, 2010 the common shares began trading under the symbol "RRL" on the TSX Venture Exchange.

On November 19, 2010, the Company acquired undeveloped leases for a total consideration of \$550,000. The acquisition was paid with \$500,000 of cash and the issuance of 500,000 common shares at a value of \$0.10 per share. The value of the common shares of \$50,000 issued as consideration for the leases has been excluded from the statement of cash flows as a non-cash transaction.

In conjunction with the closing of the acquisition, Relentless completed a private placement of 5,500,000 common shares at a price of \$0.20 per share for total proceeds of \$1,100,000.

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

RELENTLESS RESOURCES LTD.
NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2010 AND 2009

9. **SHARE CAPITAL (continued)**

Stock options

The Company has adopted an incentive stock option plan whereby options may be granted from time to time to directors, officers, employees and consultants to the Company with common shares to be reserved for issuance as options not to exceed 10 percent of the issued and outstanding common shares.

On September 15, 2010, the Company approved the grant of a total of 932,500 stock options to directors, officers, employees and consultants of the Company. The options are exercisable into common shares of the Company at an exercisable price of \$0.10 per share, vest immediately and have a five-year term of expiry.

The following transactions occurred in 2010:

	Number	Weighted average exercise price per share (<i>\$</i>)
Outstanding, December 31, 2008	895,000	0.42
Expired	(350,000)	0.20
Outstanding, December 31, 2009	545,000	0.54
Granted	932,500	0.10
Cancelled	(187,500)	0.54
Outstanding, December 31, 2010	1,290,000	0.22

Options outstanding	Exercise price (<i>\$</i>)	Options exercisable at December 31, 2010	Expiry date	Weighted average life outstanding (<i>years</i>)
250,000	0.50	250,000	April 11, 2011	0.3
15,000	0.50	15,000	August 15, 2011	0.6
92,500	0.60	92,500	February 15, 2012	1.1
932,500	0.10	932,500	September 15, 2015	4.7
1,290,000		1,290,000		3.7

RELENTLESS RESOURCES LTD.
NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2010 AND 2009

9. **SHARE CAPITAL (continued)**

In conjunction with consolidation of common shares on June 9, 2010, the options outstanding were also consolidated on a two for one basis and the exercise price of the options were adjusted accordingly.

Warrants

In conjunction with the common shares issued on a “flow-through basis” on December 22, 2010, the Company issued a total 58,578 finders warrants exercisable into common shares at a price of \$0.30 per share for a term of one year, expiring December 21, 2011.

Stock-based compensation

The Company has recorded stock-based compensation expense of \$49,373 as at December 31, 2010, (2009 - \$nil) for options issued, which vested fully during the period. The finders’ warrants expense has been recorded as common share issuance fees. Using the Black-Scholes model, assuming the expected life of the options are five years and one year for warrants, and no expected future dividends, the following table summarizes the total fair value of options granted.

<u>Grant Date</u>	<u>Options/Warrants Granted</u>	<u>Expected Volatility</u> (%)	<u>Risk-free Interest Rate</u> (%)	<u>Total Fair Value</u> (<i>\$ thousands</i>)
September 15, 2010	932,500	88	2.88	49
December 22, 2010	58,578	88	1.48	5

10. **CONTRIBUTED SURPLUS**

The following table reconciles the Company’s contributed surplus for the years ended December 31, as indicated

	<u>2010</u>	<u>2009</u>
Balance, beginning of year	\$ 410,179	\$ 410,179
Stock-based compensation	54,356	-
Balance, end of year	<u>\$ 464,535</u>	<u>\$ 410,179</u>

RELENTLESS RESOURCES LTD.
NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2010 AND 2009

11. LOSS PER SHARE

Basic loss per share is calculated using the weighted average number of shares outstanding during the year. Diluted loss per share is not calculated to reflect the anti-dilutive effect of stock options outstanding. Loss per share is calculated as follows:

		2010		
		Net loss	Weighted average common shares	Loss per share
	Basic	\$ (306,448)	14,773,497	(0.02)
		2009		
		Net loss	Weighted average common shares	Loss per share
	Basic	\$ (430,813)	11,839,250	(0.04)

12. INCOME TAXES

a) The components of future income tax balances are as follows:

		2010	2009
	Future income tax asset		
	Non-capital loss carry-forwards	\$ 397,448	\$ 351,576
	Carrying value of petroleum and natural gas properties in excess of tax basis	194,507	183,912
	Share issue costs	17,482	6,490
	Other	13,589	-
		623,026	541,978
	Valuation allowance	(623,026)	(541,978)
		\$ -	\$ -

RELENTLESS RESOURCES LTD.
NOTES TO THE FINANCIAL STATEMENTS

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12. **INCOME TAXES (continued)**

b) The provision for income taxes recorded in the financial statements differs from the amount which would be obtained by applying the statutory income tax rate of 28.0% (2009 - 25.0%) to the loss for the years as follows:

	2010	2009
Loss for the year before income taxes	\$ (306,448)	\$ (433,351)
Anticipated income tax recovery	\$ (85,805)	\$ (108,338)
Permanent income differences	13,905	529
Change in valuation allowance	81,049	18,310
Income tax rate adjustment	7,704	69,050
Other	(16,853)	20,449
	\$ -	\$ -
Income tax recovery	\$ -	\$ -

As at December 31, 2010, the Company has approximately \$2,217,273 (2009 - \$2,489,380) of Canadian tax pools available for deduction against future taxable income.

For income tax purposes, the Company has losses carried forward from prior years which can be applied to reduce future years' taxable income. These losses expire as follows:

2014	\$ 14,604
2025	90,865
2026	393,902
2027	522,290
2029	348,535
2030	237,840
	\$ 1,608,036
	\$ 1,608,036

13. **CAPITAL MANAGEMENT**

The Company's objective when managing capital is to maintain a flexible capital structure which will allow it to execute on its capital expenditure program, which includes expenditures in oil and gas activities which may or may not be successful. Therefore, the Company endeavors to balance the proportion of debt and equity in its capital structure to take into account the level of risk being incurred in its capital expenditures.

In the management of capital, the Company includes share capital and net debt (defined as current assets less current liabilities less bank debt) in the definition of capital.

RELENTLESS RESOURCES LTD.
NOTES TO THE FINANCIAL STATEMENTS

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13. CAPITAL MANAGEMENT (continued)

The Company's capital structure is as follows:

	2010	2009
Shareholders' equity	\$ 2,791,261	\$ 685,748
Net debt	1,351,845	(1,088,160)
	\$ 4,143,106	\$ (402,412)

The key measures that the Company utilizes in evaluating its capital structure are net debt to funds generated by operations (before changes in non-cash working capital and settlement of asset retirement costs) and the current credit available from its creditors in relation to the Company's budgeted capital expenditure program. Net debt to funds generated by operations is determined as net debt divided by funds generated by operations and represents the time period it would take to pay off the debt if no further capital expenditures were incurred and if funds generated by operations stayed constant.

The Company manages its capital structure and makes adjustments by continually monitoring its business conditions, including; the current economic conditions; the risk characteristics of the underlying assets; the depth of its investment opportunities; forecasted investment levels; the past efficiencies of our investments; the efficiencies of forecasted investments and the desired pace of investment; current and forecasted total debt levels; current and forecasted energy commodity prices and other factors that influence commodity prices and funds generated by operations, such as foreign exchange and quality basis differential.

In order to maintain or adjust the capital structure, the Company will consider; its forecasted net debt to forecasted funds generated by operations ratio while attempting to finance an acceptable capital spending program including incremental capital spending and acquisition opportunities; the current level of bank credit available from the commercial bank; the level of bank credit that may be attainable from its commercial bank as a result of oil and gas reserve growth; the availability of other sources of debt with different characteristics than the existing bank debt; the sale of assets; limiting the size of capital spending program and new common equity if available on favourable terms.

14. CONTRACTUAL OBLIGATION

On December 22, 2010, the Company issued through a private placement, 3,333,335 common shares on a "flow-through basis" at a price of \$0.30 per share for proceeds of \$1,000,000. The Company is obligated to incur \$1,000,000 of qualifying expenditures prior to December 31, 2011. As at December 31, 2010, the remaining obligation was \$1,000,000.

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15. FINANCIAL INSTRUMENTS

Financial instruments consist of recorded amounts of accounts receivable which will result in future cash receipts, as well as bank indebtedness, accounts payable and accrued liabilities and loan payable which will result in future cash outlays.

The nature of the Company's operations result in exposure to fluctuations in commodity prices, exchange rates and interest rates. The Company does not use derivative financial instruments to manage its exposure to these risks.

(a) Market risk

Market risk is the risk or uncertainty arising from possible market price or interest rate movements and their impact on the future performance of the business. These market risks are evaluated by monitoring changes in key economic indicators and market information on an on-going basis.

(b) Interest rate risk

The Company is exposed to interest rate cash flow risk on its outstanding borrowings, specifically, on the floating rate element of its credit facility and bank indebtedness. All the Company's borrowings have a floating interest rate component. The Company manages this risk through regular review of market conditions and interest rates, for which, if considered necessary, recommendations for changes to existing financing or new arrangements are presented to the board of directors for approval.

(c) Commodity price risk

The Company is exposed to movements in the prices of oil commodities sold during its normal course of operations. Management does not currently use derivative instruments to hedge commodity prices.

A \$1 change in the price of oil and gas production would affect net loss for the year ended December 31, 2010 by \$14,600 (2009 - \$33,000). This was calculated by applying the change to the total production for the year.

(d) Liquidity risk

Liquidity risk encompasses the risk that a company cannot meet its financial obligations in full. The Company's main source of liquidity is its cash generated from operations, and credit facilities. These funds are primarily used to finance working capital, operating expenses, and a portion of capital expenditures.

The Company manages its liquidity risk by regularly monitoring its cash flows from operating activities. The current year's budget is planned to be funded from a combination of cash flow from operations with the remaining requirements from the credit facility. All amounts are due on demand.

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15. **FINANCIAL INSTRUMENTS (continued)**

(e) Credit risk

Credit risk is the risk of economic loss arising when a counterparty fails to meet its obligations as they come due. Credit risk encompasses both the direct risk of default and the risk of a deterioration of creditworthiness and the respective concentration risk.

Credit risk resulting from joint venture operations is managed through the use of cash calls to partners prior to incurring expenditures. Therefore, management believes that there is no significant credit risk inherent in the Company's accounts receivable from joint venture partners.

The Company maintains its cash balance with one major commercial financial institution. The maximum exposure to credit risk is equal to the carrying amount of financial instruments classified as loans and receivables and cash.

(f) Fair value

It is management's opinion that the Company's carrying values of accounts receivable, bank indebtedness, accounts payable and accrued liabilities and loan payable approximate their fair values due to the immediate or short-term maturity of these instruments.

16. **COMPARATIVE AMOUNTS**

The financial statements have been reclassified, where applicable, to conform to the presentation used in the current year. The changes do not affect prior year earnings.

17. **SUBSEQUENT EVENTS**

On February 8, 2011, the Company granted 100,000 stock options at \$0.31 per share.

On March 4, 2011, 112,500 of the stock options granted were exercised for common shares of the Company.