



Management's Discussion and Analysis

ROCK ENERGY INC. ("ROCK" OR THE "COMPANY") is a publicly traded energy company engaged in the exploration for and the development and production of crude oil and natural gas, primarily in Western Canada. Rock's corporate strategy is to grow and develop an oil and natural gas exploration and production company through internal operations and acquisitions.

Rock evaluates its performance based on net income, operating netback, funds from operations and finding and development costs. Funds from operations are a measure used by the Company to analyze operations, performance, leverage and liquidity. Operating netback is a benchmark used in the oil and natural gas industry to measure the contribution of the oil and natural gas operations following the deduction of royalties, transportation costs and operating expenses. Finding and development costs are another benchmark used in the oil and natural gas industry to measure the capital costs incurred by the Company to find and bring reserves on-stream.

Rock faces competition in the oil and natural gas industry for resources, including technical personnel and third-party services, and capital financing. The Company is addressing these issues through the addition of personnel with the expertise to develop opportunities on existing lands and to control operating and administrative cost structures. Rock also seeks to obtain the best commodity price available based on the quality of its produced commodities.

The following Management's Discussion and Analysis is dated March 12, 2008 and is management's assessment of Rock's historical, financial and operating results, together with future prospects, and should be read in conjunction with the audited consolidated financial statements of Rock for the 12 months ended December 31, 2007.

Basis of Presentation

Financial measures referred to in this discussion, such as funds from operations and funds from operations per share, are not prescribed by generally accepted accounting principles (GAAP). Funds from operations is a key measure that demonstrates the ability to generate cash to fund expenditures. Funds from operations is calculated by taking the cash provided by operations from the consolidated statement of cash flows and adding back changes in non-cash working capital. Funds from operations per share is calculated using the same share basis which is used in the determination of net income per share. These non-GAAP financial measures may not be comparable to similar measures presented by other companies. These financial measures are not intended to represent operating profits for the period nor should they be viewed as an alternative to cash provided by operating activities, net income or other measures of financial performance calculated in accordance with GAAP.

All barrels of oil equivalent (boe) conversions in this report are derived by converting natural gas to oil at the ratio of six thousand cubic feet (mcf) of natural gas to one barrel (bbl) of oil. Certain financial values are presented on a boe basis and such measurements may not be consistent with those used by other companies. Boe may be misleading, particularly if used in isolation. A boe conversion ratio of six mcf to one boe is based on an energy equivalency conversion method primarily applicable at the burner tip and does not necessarily represent a value equivalency at the wellhead.

Certain statements and information contained in this document, including but not limited to management's assessment of Rock's plans and future operations, production, reserves, revenue, commodity prices, operating and administrative expenditures, future income taxes, wells drilled, acquisitions and dispositions, funds from operations, capital expenditure programs and debt levels, contain forward-looking statements. All statements other than statements of historical fact may be forward-looking statements. These statements, by their nature, are subject to numerous risks and uncertainties, some of which are beyond Rock's control, including the effect of general economic conditions, industry conditions, regulatory and taxation regimes, volatility of commodity prices, currency fluctuations, the availability of services, imprecision of reserve estimates, geological, technical, drilling and processing problems, environmental risks, weather, the lack of availability of qualified personnel or management, stock market volatility, the ability to access sufficient capital from internal and external sources and competition from other industry participants for, among other things, capital, services, acquisitions of reserves, undeveloped lands and skilled personnel, any of which may cause actual results or events to differ materially from those anticipated in such forward-looking statements. Such forward-looking statements, although considered reasonable by management at the time of preparation, may prove to be incorrect and actual results may differ materially from those anticipated in the statements made and, therefore, should not unduly be relied on. These statements speak only as of the date of this document. Rock does not intend and does not assume any obligation to update these forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable law.

All financial amounts are in thousands of Canadian dollars unless otherwise noted.

Guidance and Outlook

The Company issued guidance on November 12, 2007 for projected 2007 and 2008 results. The table below provides the guidance for 2007 with actual results.

2007 GUIDANCE

| | 2007 Guidance | Actual | Difference |
|-----------------------------------|---------------|----------------|------------|
| 2007 Production (boe/d) | | | |
| Annual | 2,150-2,250 | 2,198 | 0% |
| Exit (December average) | 2,600-2,800 | 2,617 | (3)% |
| 2007 Funds from Operations | | | |
| Annual | \$15 million | \$15.2 million | 1% |
| Annual (per share) | \$0.71 | \$0.72 | 1% |
| 2007 Capital Budget | | | |
| Expenditures | \$26 million | \$25.6 million | (2)% |
| Gross wells drilled | 16 | 16 | 0% |
| Total net debt at year-end | \$29 million | \$29.1 million | 0% |
| Pricing (Fourth Quarter) | | | |
| Oil – WTI | US\$85.00/bbl | US\$90.68/bbl | 7% |
| Natural gas – AECO | \$6.25/mcf | \$6.15/mcf | (2)% |
| US/Cdn dollar exchange rate | 1.05 | 1.02 | (3)% |

Production averages for the year and the exit rate were within the guidance range. Funds flow from operations was slightly above guidance as lower royalties offset higher G&A costs. Capital expenditures and debt levels were also at guidance levels.

Guidance for 2008 has been updated to reflect results from the winter drilling program and higher expected commodity prices. The table below updates the Company's previous guidance that was issued November 12, 2007.

| 2008 GUIDANCE | 2008 | | |
|-----------------------------|----------------------|---------------------|--------|
| | Previous Guidance | Revised Guidance | Change |
| 2008 Production (boe/d) | | | |
| Annual | 3,200-3,400 | 3,400-3,600 | 6% |
| Exit | 3,700-3,900 | 3,900-4,100 | 5% |
| 2008 Funds from Operations | | | |
| Annual | \$22 million | \$28 million | 27% |
| Annual – (per share) | \$0.86 | \$1.08 | 26% |
| 2008 Capital Budget | | | |
| Expenditures | \$24 million | \$30 million | 25% |
| Gross wells drilled | 18-22 | 18-22 | 0% |
| Total net debt at year-end | \$31 million | \$31 million | 0% |
| Pricing (Annual) | | | |
| Oil – WTI | US\$75.00/bbl | US\$85.00/bbl | 13% |
| Natural gas – AECO | Cdn\$6.75/mcf | Cdn\$7.25/mcf | 7% |
| US/Cdn dollar exchange rate | 1.00 | 1.00 | 0% |

Rock anticipates production from the Saxon winter program to begin by June 2008 versus the previous guidance of October 2008. The Company did not farm out this prospect and retained a 100 percent working interest versus a budgeted 70 percent working interest. As a result, average annual and exit production rates have increased by about 200 boe per day. Capital expenditures have also increased by \$6 million to reflect the higher working interest at Saxon and additional infrastructure costs. In the previous guidance the majority of the Saxon infrastructure was to be owned by a third party however, Rock has decided to keep control of this infrastructure. The majority of the increased capital spending is projected to be incurred by June 2008.

Based on the strength of commodity prices to date in 2008, we have increased the reference price of WTI to US\$85.00 per barrel and natural gas at AECO to Cdn\$7.25 per mcf. Royalty rates are assumed to be approximately 22.5 percent, operating costs per boe have been held at the same rate as previous guidance of \$12.20 per boe, G&A costs have decreased to \$2.30 per boe based on increased production, and interest costs have been increased reflecting higher average debt levels in the first half of 2008. Funds from operations for 2008 are projected to increase \$6 million to \$28 million (\$1.08 per basic share) based on increased production and commodity prices and other changes noted above.

Rock's bank is reviewing its borrowing base based on the 2007 year-end reserve report. We expect an increase in the loan facility to \$38 million from \$36 million and to put in place a \$6 million development facility which will allow us to finance the increased capital expenditures at Saxon. Given the timing of the capital expenditures and on-stream production date for Saxon, the Company's debt-to-funds flow ratio (based on annualized quarterly funds from operations) is projected to rise to 1.9:1 in the first quarter of 2008 but then fall throughout the year to 1:1 by year-end. The Company will continue to monitor its funds from operations, capital program and debt levels and make adjustments to ensure the projected debt-to-cash flow ratio does not exceed 1.5:1 by year-end.

Production and Prices

PRODUCTION BY PRODUCT

| | 12 Months Ended 12/31/07 | 12 Months Ended 12/31/06 | Change | 3 Months Ended 12/31/07 | 3 Months Ended 12/31/06 | Change |
|---------------------|--------------------------------|--------------------------------|--------|-------------------------------|-------------------------------|--------|
| Natural gas (mcf/d) | 4,261 | 6,421 | (34)% | 6,372 | 3,528 | 81% |
| Oil (bbls/d) | 215 | 179 | 20% | 206 | 206 | 0% |
| Heavy oil (bbls/d) | 1,194 | 792 | 51% | 1,323 | 1,168 | 13% |
| NGL (bbls/d) | 79 | 57 | 39% | 81 | 42 | 93% |
| Total (boe/d) (6:1) | 2,198 | 2,098 | 5% | 2,672 | 2,004 | 33% |

PRODUCTION BY AREA

| | 12 Months Ended 12/31/07 | 12 Months Ended 12/31/06 | Change | 3 Months Ended 12/31/07 | 3 Months Ended 12/31/06 | Change |
|------------------------------|--------------------------------|--------------------------------|--------|-------------------------------|-------------------------------|--------|
| West Central Alberta (boe/d) | 642 | 972 | (34)% | 1,041 | 652 | 60% |
| Plains (boe/d) | 1,196 | 795 | 50% | 1,325 | 1,171 | 13% |
| Other (boe/d) | 360 | 331 | 9% | 306 | 181 | 69% |
| Total (boe/d) (6:1) | 2,198 | 2,098 | 5% | 2,672 | 2,004 | 33% |

Production increased 5 percent for the year ended December 31, 2007 over the prior year as the increase in heavy oil production more than offset the reduction in natural gas production. Heavy oil production increases were driven by drilling activity in 2007 and the latter half of 2006. Heavy oil production was negatively affected by natural gas migration issues at Edam in the second half of 2007 as natural gas appears to have permeated the oil zone. We are in the process of remediating the issue and hope to produce the natural gas from the oil zone by concurrently producing it with the oil starting in the second quarter of 2008.

Dispositions in July 2006 of approximately 820 boe per day reduced the natural gas production base for most of 2007 which was partially offset by the Greenbank acquisition that closed at the end of the third quarter in 2007. The Greenbank properties added approximately 500 boe per day of predominately natural gas production. The majority of the drilling in the West Central core area is directed at natural gas and the successful wells were not brought on-stream until the first quarter of 2008. Rock's current production is approximately 2,900 boe per day.

Production increased by 33 percent in the fourth quarter of 2007 from the same period last year as the Greenbank acquisition added production in the quarter while the property dispositions in July 2006 reduced production in the prior-year period. Post-2007 break-up drilling activities increased heavy oil production despite the loss of production from the natural gas migration issues at Edam. As a result of these activities the Company's natural gas weighting has increased from 29 percent in the fourth quarter of 2006 to 40 percent in the fourth quarter of 2007.

PRODUCT PRICES

| | 12 Months Ended 12/31/07 | 12 Months Ended 12/31/06 | Change | 3 Months Ended 12/31/07 | 3 Months Ended 12/31/06 | Change |
|--|--------------------------------|--------------------------------|--------|-------------------------------|-------------------------------|--------|
| Realized Product Prices | | | | | | |
| Natural gas (\$/mcf) | 6.96 | 7.07 | (2)% | 6.64 | 7.45 | (11)% |
| Oil (\$/bbl) | 70.69 | 64.46 | 10% | 81.66 | 57.77 | 41% |
| Heavy oil (\$/bbl) | 41.18 | 38.35 | 7% | 42.56 | 34.86 | 22% |
| NGL (\$/bbl) | 60.00 | 61.35 | (2)% | 67.81 | 65.47 | 4% |
| Combined average (\$/boe) (6:1) | 44.93 | 43.27 | 4% | 45.26 | 40.73 | 11% |
| Average Reference Prices | | | | | | |
| Natural gas – Henry Hub Daily Spot (US\$/mmbtu) | 6.98 | 6.75 | 3% | 7.01 | 6.69 | 5% |
| Natural gas – AECO C Daily Spot (\$/mcf) | 6.45 | 6.54 | (2)% | 6.15 | 6.99 | (12)% |
| Oil – WTI Cushing, Oklahoma (US\$/bbl) | 72.31 | 66.22 | 9% | 90.68 | 60.21 | 51% |
| Oil – Edmonton Light (\$/bbl) | 76.35 | 72.77 | 5% | 86.42 | 64.49 | 34% |
| Heavy oil – Lloydminster blend (\$/bbl) | 51.63 | 50.07 | 3% | 55.49 | 43.84 | 27% |
| US/Cdn \$ exchange rate | 0.935 | 0.882 | 6% | 1.019 | 0.878 | 16% |

For the year and quarter ended December 31, 2007 the Company experienced higher oil prices and lower natural gas prices compared to the prior year periods. Rock's weighted average price per boe increased from the prior year which was driven by a higher overall oil weighting in the production mix. For the quarter the significant increase in oil pricing more than offset the reduction in natural gas pricing despite the increase in natural gas production in the overall production mix.

Heavy oil prices were stronger in both periods in 2007 compared to 2006 as WTI prices increased – more so in the fourth quarter of 2007. However, differentials widened in the fourth quarter of 2007 due to temporary pipeline issues, refinery turnarounds, higher condensate prices for blend and a stronger Canadian dollar. Oil prices have continued to remain strong in the first quarter of 2008 and the differential has narrowed and condensate prices have improved from fourth quarter 2007 levels. As a result Rock has been receiving more than \$55 per barrel at the wellhead for heavy oil thus far in 2008.

Canadian natural gas prices for the year and fourth quarter of 2007 were below 2006 levels as the stronger Canadian dollar more than offset the modest increase in U.S. natural gas prices for these periods. Natural gas prices have improved in the first quarter of 2008 – currently over \$8.00 per mcf – as colder weather has been experienced in North America and strong European and Asian pricing has reduced LNG shipments to North America. Reduced drilling activity in Canada should help support natural gas prices as supply is expected to decline. Natural gas prices traditionally decrease in the summer months as overall demand is reduced. Summer natural gas prices will be influenced by the amount of storage that needs to be replenished for the winter season, cooling demand and the amount of LNG that is imported into North America due to price differentials and demand in the European and Asian markets. The general lack of storage facilities in those markets could also impact the amount of LNG shipped to North America.

Revenue

The vast majority of the Company's revenue is derived from oil and natural gas operations. Other income is primarily royalty interest revenue.

OIL AND NATURAL GAS REVENUE

| | 12 Months Ended 12/31/07 | 12 Months Ended 12/31/06 | Change | 3 Months Ended 12/31/07 | 3 Months Ended 12/31/06 | Change |
|---------------|--------------------------------|--------------------------------|-----------|-------------------------------|-------------------------------|------------|
| Natural gas | \$ 10,830 | \$ 16,560 | (35)% | \$ 3,890 | \$ 2,408 | 61% |
| Oil | 5,538 | 4,195 | 31% | 1,547 | 1,073 | 39% |
| Heavy oil | 17,951 | 11,124 | 62% | 5,180 | 3,790 | 38% |
| NGL | 1,724 | 1,277 | 36% | 507 | 264 | 100% |
| | 36,042 | 33,156 | 9% | 11,124 | 7,535 | 48% |
| Other revenue | \$ 79 | \$ 198 | (60)% | \$ 12 | \$ 42 | (71)% |

Oil and natural gas revenue increased by 9 percent for the year ended December 31, 2007 over 2006 due to higher production levels, particularly heavy oil, which more than offset lower natural gas production. For the fourth quarter of 2007 oil and natural gas revenue increased by 48 percent from the same period in 2006 as higher production, particularly natural gas, and higher oil prices more than offset the decrease in natural gas prices.

ROYALTIES

| | 12 Months Ended 12/31/07 | 12 Months Ended 12/31/06 | Change | 3 Months Ended 12/31/07 | 3 Months Ended 12/31/06 | Change |
|---|--------------------------------|--------------------------------|--------|-------------------------------|-------------------------------|--------|
| Royalties | \$ 7,035 | \$ 6,881 | 2% | \$ 2,017 | \$ 1,4523 | 9% |
| As a percentage of oil and natural gas revenue | 19.5% | 20.8% | (6)% | 18.1% | 19.3% | (6)% |
| Per boe (6:1) | \$ 8.77 | \$ 8.98 | (2)% | \$ 8.21 | \$ 7.88 | 4% |

Royalties increased for the year and quarter ended December 31, 2007 over the prior year periods due to higher production levels. The fourth quarter of 2007 included Alberta Royalty Tax Credits (ARTC) of \$459. Although the ARTC program was cancelled effective January 1, 2007, the Alberta Government passed legislation late in 2007 allowing companies with off-calendar (non-December 31) tax year-ends to benefit from a full calendar year of ARTC. Without the ARTC benefit the royalty rates for 2007 would have been 22.2 percent for the quarter and 20.8 percent for the year. The Company is forecasting a royalty rate of approximately 22.5 percent for 2008.

OPERATING EXPENSES

| | 12 Months Ended 12/31/07 | 12 Months Ended 12/31/06 | Change | 3 Months Ended 12/31/07 | 3 Months Ended 12/31/06 | Change |
|----------------------|--------------------------------|--------------------------------|-----------|-------------------------------|-------------------------------|------------|
| Operating expense | \$ 9,505 | \$ 8,947 | 6% | \$ 2,889 | \$ 2,429 | 19% |
| Transportation costs | 420 | 308 | 36% | 130 | 83 | 57% |
| | 9,925 | 9,255 | 7% | 3,019 | 2,512 | 20% |
| Per boe (6:1) | \$ 12.37 | \$ 12.08 | 2% | \$ 12.28 | \$ 13.63 | (10)% |

Operating costs for the year and quarter ended December 31, 2007 have increased over 2006 primarily due to higher production. Operating expenses per boe were up slightly for the year ended 2007 compared to 2006 but down about 10 percent in the fourth quarter of 2007 versus the same period in 2006. Lower cost properties from the Greenbank acquisition benefitted fourth quarter 2007 results, while the fourth quarter of 2006 included prior period processing costs. Transportation costs have increased as a result of the acquired properties.

Heavy oil unit costs in 2007 decreased slightly year-over-year to \$12.90 from \$13.02 per boe and quarter-over-quarter to \$13.61 from \$14.33 per boe. Costs in the last half of 2007 trended up due to remediation efforts at Edam and 2006 costs were high due to the start-up costs as the result of significant heavy oil drilling that occurred in that year. Total Company operating expenses, including transportation expense, are forecast to be approximately \$12.20 per boe in 2008.

GENERAL AND ADMINISTRATIVE (G&A) EXPENSE

| | 12 Months Ended 12/31/07 | 12 Months Ended 12/31/06 | Change | 3 Months Ended 12/31/07 | 3 Months Ended 12/31/06 | Change |
|-------------------------------------|--------------------------------|--------------------------------|--------|-------------------------------|-------------------------------|--------|
| Gross | \$ 4,791 | \$ 3,905 | 23% | \$ 1,593 | \$ 1,085 | 47% |
| Per boe (6:1) | 5.97 | 5.10 | 17% | 6.48 | 5.89 | 10% |
| Capitalized and overhead recoveries | 2,052 | 1,627 | 26% | 638 | 395 | 62% |
| Per boe (6:1) | 2.56 | 2.12 | 21% | 2.60 | 2.14 | 21% |
| Net | 2,739 | 2,278 | 20% | 955 | 690 | 38% |
| Per boe (6:1) | 3.41 | 2.97 | 15% | 3.88 | 3.74 | 4% |

G&A expense increased on an absolute and per boe basis in 2007 over 2006 due to a higher overall cost environment and in particular the fourth quarter of 2007 also includes \$300 of one-time costs associated with management changes and transition costs related to the Greenbank acquisition. Rock capitalizes certain G&A expenses based on personnel involved in the exploration and development initiatives, including salaries and related overhead costs. Gross G&A expenses are expected to be flat on an absolute basis in 2008 but decrease on a per boe basis as production is expected to increase.

INTEREST EXPENSE

| | 12 Months Ended 12/31/07 | 12 Months Ended 12/31/06 | Change | 3 Months Ended 12/31/07 | 3 Months Ended 12/31/06 | Change |
|-----------------------------|--------------------------------|--------------------------------|--------|-------------------------------|-------------------------------|--------|
| Interest expense (recovery) | \$ 1,157 | \$ 924 | 25% | \$ 417 | \$ 141 | 195% |
| Per boe (6:1) | \$ 1.44 | \$ 1.21 | 20% | \$ 1.70 | \$ 0.76 | 121% |

Interest expense has increased for the year and fourth quarter of 2007 over the 2006 periods due to higher average bank debt as capital expenditures, excluding acquisitions, exceeded funds from operations and were funded through the Company's bank facility. Interest expense is expected to increase again in 2008 due to higher average bank debt and increase approximately 20 percent on a per boe basis.

DEPLETION, DEPRECIATION, AND ACCRETION (DD&A)

| | 12 Months Ended 12/31/07 | 12 Months Ended 12/31/06 | Change | 3 Months Ended 12/31/07 | 3 Months Ended 12/31/06 | Change |
|-------------------|--------------------------------|--------------------------------|--------|-------------------------------|-------------------------------|--------|
| D&D expense | \$ 13,989 | \$ 13,989 | 0% | \$ 5,021 | \$ 2,707 | 85% |
| Per boe (6:1) | \$ 17.44 | \$ 18.27 | (5)% | \$ 20.42 | \$ 14.69 | 39% |
| Accretion expense | \$ 154 | \$ 129 | 20% | \$ 48 | \$ 34 | 41% |
| Per boe (6:1) | \$ 0.19 | \$ 0.17 | 14% | \$ 0.20 | \$ 0.18 | 11% |

Depletion and depreciation expense for the year ended December 31, 2007 equalled the prior year despite higher production and increased for the fourth quarter of 2007 from the 2006 period due to higher production and an increase in the per boe expense. The fourth quarter 2007 per boe depletion and depreciation expense increased as a result of negative reserve revisions recorded at Edam for the natural gas migration issue; reserves in the Greenbank acquisition which were at a higher cost than the existing base and increased capital activities in the West Central core area, which has relatively higher costs than the Plains core area.

The Company's asset retirement obligation (ARO) represents the present value of estimated future costs to be incurred to abandon and reclaim the Company's wells and facilities. The discount rate used is 8 percent.

Accretion represents the change in the time value of ARO. The underlying ARO may be increased over a period based on new obligations incurred from drilling wells, constructing facilities or acquiring operations. Similarly, this obligation can also be reduced as a result of abandonment work undertaken and reducing future obligations. During the year ended December 31, 2007 capital programs and acquisitions increased the underlying ARO by \$1,592 (December 31, 2006 – \$413) and actual expenditures on abandonments were nil (December 31, 2006 – \$104).

Income Tax

The Company pays Saskatchewan resource capital taxes based on its production in the province. Rock does not have current income tax payable and does not expect to pay current income taxes in 2008 as the Company and its subsidiaries have estimated resource and other pools available at December 31, 2007 (after the allocation of deferred partnership income) of approximately \$106.1 million as set out below:

| | |
|---------------------|-------------------------|
| CEE | \$ 42.0 million |
| CDE | \$ 28.5 million |
| COGPE | \$ 4.7 million |
| UCC | \$ 14.9 million |
| Loss carry-forwards | \$ 14.5 million |
| Other | \$ 1.5 million |
| Total | \$ 106.1 million |

FUNDS FROM OPERATIONS AND NET INCOME/(LOSS)

| | 12 Months Ended 12/31/07 | 12 Months Ended 12/31/06 | Change | 3 Months Ended 12/31/07 | 3 Months Ended 12/31/06 | Change |
|--------------------------------------|--------------------------------|--------------------------------|--------|-------------------------------|-------------------------------|--------|
| Funds from operations | \$ 15,189 | \$ 13,867 | 10% | \$ 4,735 | \$ 2,644 | 79% |
| Per boe (6:1) | \$ 18.93 | \$ 18.11 | 5% | \$ 19.26 | \$ 14.35 | 34% |
| Per share: | | | | | | |
| Basic | \$ 0.72 | \$ 0.71 | 1% | \$ 0.18 | \$ 0.13 | 38% |
| Diluted | \$ 0.72 | \$ 0.71 | 1% | \$ 0.18 | \$ 0.13 | 38% |
| Net income (loss) | \$ 561 | \$ (884) | 165% | \$ 290 | \$ (119) | 344% |
| Per boe (6:1) | \$ 0.70 | \$ (1.15) | 161% | \$ 1.18 | \$ (0.65) | 279% |
| Per share: | | | | | | |
| Basic | \$ 0.03 | \$ (0.05) | 160% | \$ 0.01 | \$ (0.01) | 200% |
| Diluted | \$ 0.03 | \$ (0.05) | 160% | \$ 0.01 | \$ (0.01) | 200% |
| Weighted average shares outstanding: | | | | | | |
| Basic | 21,239 | 19,637 | 8% | 25,847 | 19,637 | 32% |
| Diluted | 21,239 | 19,655 | 8% | 25,847 | 19,637 | 32% |

The Company issued 6.1million shares at September 28, 2007 to acquire Greenbank and issued 0.1 million flow-through shares at November 1, 2007 to new management appointments. The Company did not issue any shares in 2006.

Funds from operations for the year ended December 31, 2007 increased by 10 percent over 2006 as the increase in production and realized prices more than offset the increase in royalties, operating, G&A and interest costs. On a per-boe basis, 2007 funds from operations increased by 5 percent from 2006 primarily for the same reasons except for the reduction in royalties. For the fourth quarter of 2007 funds from operations increased by 79 percent on an absolute basis and 34 percent on a per boe basis from the prior year's periods primarily as the increase in production and prices more than offset the increase in royalties, G&A and interest costs. On a per share basis, funds from operations was essentially flat in 2007 versus 2006 but increased 38 percent in the fourth quarter of 2007 over the same quarter in 2006. The Company generated net income for the year and quarter ended December 31, 2007 versus net losses in the prior year periods primarily as a result of booking future income tax recovery in 2007, compared to an expense in 2006. The future tax recovery was a result of the reduction in the future tax rate and the tax pools associated with the Greenbank acquisition. As a result net income per share also increased over the prior year periods.

CAPITAL EXPENDITURES

| | 12 Months Ended 12/31/07 | 12 Months Ended 12/31/06 | Change | 3 Months Ended 12/31/07 | 3 Months Ended 12/31/06 | Change |
|--|--------------------------------|--------------------------------|--------|-------------------------------|-------------------------------|--------|
| Land | \$ 3,723 | \$ 4,822 | (23)% | \$ 457 | \$ 120 | 280% |
| Seismic | 1,359 | 1,081 | 26% | 56 | 127 | (56)% |
| Drilling and completions | 16,689 | 25,130 | (34)% | 5,567 | 5,758 | (3)% |
| Capitalized G&A | 2,004 | 1,627 | 23% | 589 | 395 | 49% |
| Natural gas gathering systems | 694 | 247 | 181% | 665 | — | n/a |
| Total operations | \$ 24,469 | \$ 32,907 | (26)% | \$ 7,334 | \$ 6,400 | 15% |
| Property acquisitions (dispositions) ⁽¹⁾ | 28,127 | (30,874) | 191% | Nil | Nil | n/a |
| Well site facilities inventory | 94 | (165) | 157% | (19) | (206) | (91)% |
| Office equipment | 1,012 | 136 | 644% | 173 | 39 | 342% |
| Total (net of acquisitions and dispositions) | \$ 53,702 | \$ 2,004 | 2,580% | \$ 7,488 | \$ 6,233 | 20% |

(1) Property acquisition for 2007 have been restated from the third quarter report to be presented as the amount allocated to property plant and equipment versus the consideration paid.

Capital expenditures for operations decreased for the year ended December 31, 2007 compared to 2006 as Rock drilled 16 (12.2 net) wells in 2007 versus 33 (28.3 net) wells in 2006. While the number of wells decreased the average cost per well increased as the Company participated in relatively more West Central core area operations than Plains core area operations in 2007. West Central core area targets tend to be deeper multi-zone natural gas targets which are more expensive than shallower heavy oil drilling that occurs in the Plains core area. Natural gas gathering expenditures also increased as tie-in operations were commenced in the Musreau and Kakwa areas and the resulting production came on-stream in the first quarter of 2008.

Land expenditures decreased as the Company focused more on drilling prospects that have been generated in the West Central core area. Seismic expenditures increased as additional seismic was acquired over the Elsworth area. Total net capital expenditures were increased to \$54 million in 2007 from \$2 million in 2006 as the Company completed the Greenbank acquisition in 2007 and divested properties in 2006.

During 2007, Rock drilled 11 (10.9 net) operated wells and five (1.3 net) non-operated wells, achieving a 91 percent success rate, compared to 27 (27.0 net) operated wells and six (1.3 net) non-operated wells and a 96 percent success rate in 2006. In the Plains core area Rock drilled 8 (8.0 net) heavy oil wells, one (0.9 net) natural gas well and one (1.0 net) dry hole. All of the wells were operated and all successful wells were on-production at year-end. The natural gas well was drilled at Edam and is part of the remediation efforts to remove natural gas from the oil zone. Plains core area production remained relatively flat in 2007 despite limited drilling and production problems at Edam. In the West Central Alberta core area Rock drilled five (2.2 net) natural gas wells and one (0.1 net) dry hole. Of the five natural gas wells drilled two (0.7 net) were at Kakwa, one (0.2 net) at Musreau, one (0.3 net) at Elmworth and one (1.0 net) at Saxon. The three wells at Kakwa and Musreau were tied-in in the first quarter of 2008 and the Elmworth and Saxon wells are expected to be tied-in the second quarter of 2008. Since year-end one (1.0 net) additional natural gas well has been drilled at Saxon. The two Saxon wells and the Elmworth well are expected to add more than 800 boe per day of production once they are on stream.

Liquidity and Capital Resources

At the end of the third quarter of 2007, Rock completed the acquisition of Greenbank Energy by issuing 3.1 million shares and 3.0 million shares in a private placement to fund the cash portion of the transaction. Capital expenditures, excluding acquisitions, of \$25.6 million in 2007 were primarily funded through cash from operations of \$15.2 million and bank debt.

Rock's current approved capital budget for 2008 projects spending of \$30 million. In 2008 funds from operations are expected to be approximately \$28 million. The capital spending in excess of cash flow is intended to be funded through bank debt. Approximately half of the capital budget is expected to be spent in the first four months of the year as the Saxon infrastructure is put in place which should allow the associated production to be on-stream by June. The timing of expenditures will likely cause the Company to temporarily exceed its borrowing base and we expect the bank will provide a \$6 million development facility to finance the capital requirements associated with the Saxon infrastructure. At year-end 2007 Rock had total debt of \$29.1 million against bank lines of \$36 million. The bank is currently reviewing the borrowing base and we expect an increase in operating line to \$38 million. The Company's debt-to-funds from operations ratio was 1.9:1 at year-end based on annual 2007 results; however this ratio includes all the debt from the Greenbank acquisition but only one quarter of the funds from operations. Based on annualized fourth quarter cash flow, the debt-to-funds from operations ratio was 1.5:1. With the current capital investment occurring in the West Central core area, Rock expects the debt-to-funds from operations ratio to increase to 1.9:1 in the first quarter of 2008 and then be reduced as production is brought on-stream ending the year at 1.0:1.

The Company has a demand operating loan facility with a Canadian chartered bank. The facility is subject to the bank's valuation of the Company's oil and natural gas assets and the credit currently available is \$36 million. The facility bears interest at the bank's prime rate or at the prevailing bankers' acceptance rate plus an applicable bank fee, which varies depending on the Company's debt-to-funds from operations ratio. The facility also bears a standby charge for undrawn amounts. The facility is secured by a first ranking floating charge on all real property of the Company, its subsidiary and partnership and a general security agreement. The next interim review for the facility is scheduled to be completed by April 30, 2008. As at March 11, 2008 approximately \$30.1 million was drawn under the facility.

Selected Annual Data

The following table provides selected annual information for Rock:

| | 12 Months Ended 12/31/07 | 12 Months Ended 12/31/06 | 12 Months Ended 12/31/05 |
|--------------------------------------|--------------------------------|--------------------------------|--------------------------------|
| Production (boe/d) | 2,198 | 2,098 | 1,122 |
| Oil and natural gas revenues (\$000) | \$ 36,042 | \$ 33,156 | \$ 22,873 |
| Average realized price (\$/boe) | \$ 44.93 | \$ 43.27 | \$ 55.85 |
| Royalties (\$/boe) | \$ 8.77 | \$ 8.98 | \$ 12.28 |
| Operating expense (\$/boe) | \$ 12.37 | \$ 12.08 | \$ 11.59 |
| Operating netback (\$/boe) | \$ 23.79 | \$ 22.21 | \$ 31.98 |
| Net G&A expense (\$000) | \$ 2,739 | \$ 2,278 | \$ 1,411 |
| Stock-based compensation (\$000) | \$ 931 | \$ 1,188 | \$ 485 |
| Funds from operations (\$000) | \$ 15,189 | \$ 13,867 | \$ 11,433 |
| Per share – basic | \$ 0.72 | \$ 0.71 | \$ 0.74 |
| Per share – diluted | \$ 0.72 | \$ 0.71 | \$ 0.74 |
| Net income (loss) | \$ 561 | \$ (884) | \$ 1,510 |
| Per share – basic | \$ 0.03 | \$ (0.05) | \$ 0.10 |
| Per share – diluted | \$ 0.03 | \$ (0.05) | \$ 0.10 |
| | As at 12/31/07 | As at 12/31/06 | As at 12/31/05 |
| Total assets | \$ 130,495 | \$ 85,380 | \$ 99,603 |
| Total liabilities | \$ 44,301 | \$ 24,901 | \$ 39,385 |

Selected Quarterly Data

The following table provides selected quarterly information for Rock:

| | 3 Months Ended 12/31/07 | 3 Months Ended 09/30/07 | 3 Months Ended 06/30/07 | 3 Months Ended 03/31/07 | 3 Months Ended 12/31/06 | 3 Months Ended 09/30/06 | 3 Months Ended 06/30/06 | 3 Months Ended 03/31/06 |
|--------------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| Production (boe/d) | 2,672 | 1,965 | 2,036 | 2,114 | 2,004 | 1,613 | 2,190 | 2,594 |
| Oil and natural gas revenues (\$000) | \$ 11,124 | \$ 8,106 | \$ 8,279 | \$ 8,533 | \$ 7,535 | \$ 7,023 | \$ 8,774 | \$ 9,824 |
| Average realized price (\$/boe) | \$ 45.26 | \$ 44.85 | \$ 44.66 | \$ 44.84 | \$ 40.73 | \$ 47.30 | \$ 44.01 | \$ 42.08 |
| Royalties (\$/boe) | \$ 8.21 | \$ 9.18 | \$ 9.23 | \$ 8.66 | \$ 7.88 | \$ 5.27 | \$ 8.97 | \$ 12.26 |
| Operating expense (\$/boe) | \$ 12.28 | \$ 12.38 | \$ 12.10 | \$ 12.75 | \$ 13.63 | \$ 13.13 | \$ 10.55 | \$ 11.55 |
| Operating netback (\$/boe) | \$ 24.77 | \$ 23.29 | \$ 23.33 | \$ 23.43 | \$ 19.22 | \$ 28.90 | \$ 24.49 | \$ 18.27 |
| Net G&A expense (\$000) | \$ 955 | \$ 528 | \$ 530 | \$ 726 | \$ 690 | \$ 477 | \$ 462 | \$ 649 |
| Stock-based compensation (\$000) | \$ 216 | \$ 207 | \$ 241 | \$ 267 | \$ 295 | \$ 308 | \$ 305 | \$ 280 |
| Funds from operations (\$000) | \$ 4,735 | \$ 3,397 | \$ 3,536 | \$ 3,521 | \$ 2,644 | \$ 3,791 | \$ 4,028 | \$ 3,404 |
| Per share – basic | \$ 0.18 | \$ 0.17 | \$ 0.18 | \$ 0.18 | \$ 0.13 | \$ 0.19 | \$ 0.21 | \$ 0.17 |
| Per share – diluted | \$ 0.18 | \$ 0.17 | \$ 0.18 | \$ 0.18 | \$ 0.13 | \$ 0.19 | \$ 0.21 | \$ 0.17 |
| Net income (loss) (\$000) | \$ 290 | \$ 15 | \$ (117) | \$ 373 | \$ (119) | \$ 891 | \$ (583) | \$ (1,074) |
| Per share – basic | \$ 0.01 | \$ 0.00 | \$ (0.01) | \$ 0.02 | \$ (0.01) | \$ 0.05 | \$ (0.03) | \$ (0.05) |
| Per share – diluted | \$ 0.01 | \$ 0.00 | \$ (0.01) | \$ 0.02 | \$ (0.01) | \$ 0.05 | \$ (0.03) | \$ (0.05) |
| Capital expenditures (\$000) | \$ 7,488 | \$ 8,367 | \$ 2,552 | \$ 7,184 | \$ 6,223 | \$ 12,520 | \$ 4,397 | \$ 9,728 |
| | As at 12/31/07 | As at 09/30/07 | As at 06/30/07 | As at 03/31/07 | As at 12/31/06 | As at 09/30/06 | As at 06/30/06 | As at 03/31/06 |
| Working capital (\$000) | \$ (29,072) | \$ (26,589) | \$ (15,268) | \$ (16,242) | \$ (12,580) | \$ (8,990) | \$ (31,135) | \$ (30,766) |

Production was relatively flat over the first three quarters of 2007 as activities were primarily directed at West Central core area projects that are expected to be on-stream in the first half of 2008. Production increased in the fourth quarter of 2007 as a result of the Greenbank acquisition. The operating netback was also relatively stable over the first three quarters of 2007 resulting in a constant level of funds from operations. Improved pricing and lower royalties (due to the ARTC benefit) in the fourth quarter of 2007 increased the operating netback slightly and with higher production, funds from operations improved about 40 percent over the previous quarter.

G&A expenses were higher in the fourth quarter of 2007 due to costs associated with year-end reporting, management changes and Greenbank transition costs. Net capital expenditures were low in the second quarter of 2007 due to spring breakup conditions as the Company did not drill any wells. A significant portion of Rock's West Central core area activities are winter-access only and as a result these operations tend to be concentrated in the December to March timeframe. The Company usually undertakes Plains core area and Elmworth activities in the third quarter of the year. Negative working capital increased significantly in the last half of 2007 as Rock drilled 4 (4.0 net) heavy oil wells in the Plains core area and began operations in the West Central core area, particularly at Kakwa, Musreau, Elmworth and Saxon.

Reserves

Rock's reserves have been independently evaluated by GLJ Petroleum Consultants Ltd. (GLJ) at year-end 2007. This is the fourth year in which GLJ has evaluated the Company's reserves. The reserves as at December 31, 2007 and 2006 have been evaluated in accordance with National Instrument 51-101 – Standards of Disclosure for Oil and Gas Activities (NI 51-101). The following tables provide a reconciliation of the Company's reserves between year-end 2006 and year-end 2007 on a gross basis (before deducting royalties and without including any royalty interest) (gross interest).

Rock's gross interest reserves at year-end 2007 are 5.3 million boe of proved reserves and 9.3 million boe of proved plus probable reserves. The growth in gross interest reserves resulted from oil and natural gas operations (net of revisions) which added 0.7 million boe of proved reserves and 0.9 million boe of proved plus probable reserves and the Greenbank acquisition which added 1.0 million of proved reserves and 1.9 million of proved plus probable reserves.

Reserves Reconciliation

The following table is a reconciliation of Rock's gross interest reserves at December 31, 2007 using GLJ's forecast pricing and cost estimates as at December 31, 2007.

RECONCILIATION OF COMPANY GROSS INTEREST RESERVES BY PRINCIPAL PRODUCT TYPE (FORECAST PRICES AND COSTS)

| Factors | Light and Medium Oil | | NGL | | Heavy Oil | | Natural Gas | | Total Oil Equivalent | |
|------------------------------------|----------------------|--------------------------------------|------------------|--------------------------------------|------------------|--------------------------------------|------------------|--------------------------------------|----------------------|--------------------------------------|
| | Proved (mdbl) | Proved Plus Probable (mdbl) | Proved (mdbl) | Proved Plus Probable (mdbl) | Proved (mdbl) | Proved Plus Probable (mdbl) | Proved (mmcf) | Proved Plus Probable (mmcf) | Proved (mboe) | Proved Plus Probable (mboe) |
| | | | | | | | | | | |
| December 31, 2006 | 413 | 588 | 119 | 183 | 2,705 | 4,299 | 7,507 | 13,591 | 4,488 | 7,334 |
| Additions ⁽¹⁾ | 0 | 0 | 72 | 113 | 378 | 532 | 2,986 | 5,167 | 949 | 1,506 |
| Technical revisions ⁽²⁾ | 7 | (3) | (3) | (9) | (359) | (617) | 472 | 73 | (278) | (617) |
| Acquisitions | 45 | 69 | 45 | 98 | 0 | 0 | 5,289 | 10,383 | 971 | 1,898 |
| Dispositions | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Production | (81) | (81) | (26) | (26) | (450) | (450) | (1,536) | (1,536) | (812) | (812) |
| December 31, 2007 | 383 | 572 | 207 | 360 | 2,275 | 3,764 | 14,717 | 27,677 | 5,318 | 9,309 |

(1) Additions include discoveries, extensions, infill drilling and improved recovery.

(2) Technical revisions include technical revisions and economic factors.

Note: Figures may not add due to rounding; mdbl=1,000 bbl, mmcf=1,000 mcf, mboe = 1,000 boe.

Reserves and Net Present Value (Forecast Prices and Costs)

The following tables summarize Rock's remaining gross interest reserves volumes along with the value of future net revenue utilizing GLJ's forecast pricing and cost estimates as at December 31, 2007.

Reserves

| Reserves Category | Light and Medium Oil (mdbl) | NGL (mdbl) | Heavy Oil (mdbl) | Natural Gas (mmcf) | Total Oil Equivalent (mboe) |
|-----------------------------------|-----------------------------|------------|------------------|--------------------|-----------------------------|
| Proved | | | | | |
| Proved producing | 323 | 99 | 1,919 | 7,230 | 3,545 |
| Proved non-producing | 60 | 91 | 124 | 5,440 | 1,183 |
| Proved undeveloped | 0 | 17 | 232 | 2,047 | 590 |
| Total proved | 383 | 207 | 2,275 | 14,717 | 5,318 |
| Probable additional | 189 | 152 | 1,489 | 12,960 | 3,991 |
| Total proved plus probable | 572 | 360 | 3,764 | 27,677 | 9,309 |

Note: Figures may not add due to rounding; mdbl=1,000 bbl, mmcf=1,000 mcf, mboe = 1,000 boe.

NET PRESENT VALUE OF FUTURE NET REVENUE

| Reserves Category | Before Income Taxes Discounted at (% per year) | | | | | After Income Taxes Discounted at (% per year) | | | | |
|-----------------------------------|---|----------------|----------------|----------------|----------------|--|----------------|----------------|----------------|----------------|
| | 0 | 5 | 10 | 15 | 20 | 0 | 5 | 10 | 15 | 20 |
| Proved | | | | | | | | | | |
| Proved producing | 95,480 | 82,548 | 73,339 | 66,361 | 60,844 | 95,480 | 82,548 | 73,339 | 66,361 | 60,844 |
| Proved non-producing | 29,247 | 24,258 | 20,840 | 18,304 | 16,333 | 24,015 | 20,477 | 17,923 | 15,998 | 14,469 |
| Proved undeveloped | 6,439 | 4,508 | 3,106 | 2,058 | 1,254 | 4,623 | 2,948 | 1,754 | 875 | 211 |
| Total proved | 131,166 | 111,314 | 97,285 | 86,722 | 78,431 | 124,118 | 105,943 | 93,016 | 83,234 | 75,524 |
| Probable additional | 94,553 | 70,100 | 55,135 | 45,009 | 37,702 | 69,520 | 51,177 | 39,998 | 32,469 | 27,063 |
| Total proved plus probable | 225,719 | 181,414 | 152,420 | 131,731 | 116,133 | 193,639 | 157,121 | 133,014 | 115,703 | 102,587 |

Note: Figures may not add due to rounding.

Pricing Assumptions

The following benchmark prices, inflation rates and exchange rates were used by GLJ for the forecast prices and costs evaluation.

SUMMARY OF PRICING AND COST RATE ASSUMPTIONS AT DECEMBER 31, 2007 – FORECAST PRICES AND COSTS

| Year | Oil | | | | NGL | | | | Natural Gas | US\$/Cdn\$ Exchange Rate | Cost Inflation Rate (%/year) |
|-------|------------------------|-----------------------------------|--------------------------------|---------------------------------|---------------------------|--------------------------|---------------------------|-----------------|-----------------|--------------------------|------------------------------|
| | WTI Cushing (US\$/bbl) | Edmonton Reference Price (\$/bbl) | Cromer Medium 29° API (\$/bbl) | Hardisty Heavy 12° API (\$/bbl) | Edmonton Propane (\$/bbl) | Edmonton Butane (\$/bbl) | Edmonton Pentane (\$/bbl) | Ethane (\$/bbl) | AECO-C (\$/mcf) | | |
| 2008 | 92.00 | 91.10 | 79.26 | 54.02 | 58.30 | 72.88 | 92.92 | 22.73 | 6.75 | 1.00 | 2 |
| 2009 | 88.00 | 87.10 | 75.78 | 51.61 | 55.74 | 69.68 | 88.84 | 25.49 | 7.55 | 1.00 | 2 |
| 2010 | 84.00 | 83.10 | 72.30 | 49.19 | 53.18 | 66.48 | 84.76 | 25.66 | 7.60 | 1.00 | 2 |
| 2011 | 82.00 | 81.10 | 70.56 | 47.98 | 51.90 | 64.88 | 82.72 | 25.66 | 7.60 | 1.00 | 2 |
| 2012 | 82.00 | 81.10 | 70.56 | 47.98 | 51.90 | 64.88 | 82.72 | 25.66 | 7.60 | 1.00 | 2 |
| 2013 | 82.00 | 81.10 | 70.56 | 49.04 | 51.90 | 64.88 | 82.72 | 25.66 | 7.60 | 1.00 | 2 |
| 2014 | 82.00 | 81.10 | 70.56 | 50.09 | 51.90 | 64.88 | 82.72 | 26.35 | 7.80 | 1.00 | 2 |
| 2015 | 82.00 | 81.10 | 70.56 | 51.15 | 51.90 | 64.88 | 82.72 | 26.94 | 7.97 | 1.00 | 2 |
| 2016 | 82.02 | 81.12 | 70.57 | 52.21 | 51.91 | 64.89 | 82.74 | 27.52 | 8.14 | 1.00 | 2 |
| 2017 | 83.66 | 82.76 | 72.00 | 53.29 | 52.97 | 66.21 | 84.42 | 28.11 | 8.31 | 1.00 | 2 |
| 2018 | 85.33 | 84.42 | 73.44 | 54.36 | 54.03 | 68.20 | 86.11 | 28.67 | 8.48 | 1.00 | 2 |
| 2019+ | +2%/yr | +2%/yr | +2%/yr | +2%/yr | +2%/yr | +2%/yr | +2%/yr | +2%/yr | +2%/yr | 1.00 | 2 |

Finding, Development and Acquisition Costs

The following table summarizes Rock's finding, development and acquisition costs for the years ended December 31, 2007, 2006 and 2005, including future development costs.

| | 12 Months Ended Dec. 31, 2007 | 12 Months Ended Dec. 31, 2006 | 12 Months Ended Dec. 31, 2005 | 3 Year Cumulative Total |
|---|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------|
| Oil and Natural Gas Operations: | | | | |
| Proved finding and development costs | | | | |
| Capital expenditures ⁽¹⁾ (\$000) | \$ 24,163 | \$ 32,907 | \$ 22,912 | \$ 79,982 |
| Change in future capital costs (\$000) | 3,501 | 2,939 | 962 | 7,402 |
| Total capital (\$000) | \$ 27,664 | \$ 35,846 | \$ 23,874 | \$ 87,384 |
| Reserve additions ⁽²⁾ (mboe) | 949 | 2,181 | 1,188 | 4,318 |
| Proved finding and development costs (\$/boe) | \$ 29.15 | \$ 16.44 | \$ 20.10 | \$ 20.24 |
| Proved plus probable finding and development costs | | | | |
| Capital expenditures ⁽¹⁾ (\$000) | \$ 24,163 | \$ 32,907 | \$ 22,912 | \$ 79,982 |
| Change in future capital costs (\$000) | 3,930 | 7,986 | 3,900 | 15,816 |
| Total capital (\$000) | \$ 28,093 | \$ 40,893 | \$ 26,812 | \$ 95,798 |
| Reserve additions ⁽²⁾ (mboe) | 1,506 | 3,624 | 2,201 | 7,331 |
| Proved plus probable finding and development costs (\$/boe) | \$ 18.66 | \$ 11.28 | \$ 12.18 | \$ 13.07 |
| Acquisitions/Dispositions: | | | | |
| Proved finding and development costs – acquisitions (dispositions) | | | | |
| Capital expenditures ⁽¹⁾ (\$000) | \$ 28,524 | \$ (30,878) | \$ 60,853 | \$ 58,499 |
| Change in future capital costs (\$000) | 4,136 | (2,400) | 3,647 | 5,383 |
| Total capital (\$000) | \$ 32,660 | \$ (33,278) | \$ 64,500 | \$ 63,882 |
| Reserve additions (mboe) | 971 | (1,042) | 2,397 | 2,326 |
| Proved finding and development costs (\$/boe) | \$ 33.64 | \$ (31.94) | \$ 26.91 | \$ 27.46 |
| Proved plus probable finding and development costs – acquisitions (dispositions) | | | | |
| Capital expenditures ⁽¹⁾ (\$000) | \$ 28,524 | \$ (30,878) | \$ 60,853 | \$ 58,499 |
| Change in future capital costs (\$000) | 11,417 | (2,400) | 3,733 | 12,750 |
| Total capital (\$000) | \$ 39,941 | \$ (33,278) | \$ 64,586 | \$ 71,249 |
| Reserve additions (mboe) | 1,898 | (1,406) | 3,154 | 3,646 |
| Proved plus probable finding and development costs (\$/boe) | \$ 21.05 | \$ (23.67) | \$ 20.48 | \$ 19.54 |
| Total Activities: | | | | |
| Proved finding and development costs | | | | |
| Capital expenditures ⁽¹⁾ (\$000) | \$ 52,687 | \$ 2,029 | \$ 83,765 | \$ 138,481 |
| Change in future capital costs (\$000) | 7,637 | 539 | 4,609 | 12,785 |
| Total capital (\$000) | \$ 60,324 | \$ 2,568 | \$ 88,374 | \$ 151,266 |
| Reserve additions ⁽³⁾ (mboe) | 1,643 | 1,279 | 3,620 | 6,542 |
| Total proved finding and development costs (\$/boe) | \$ 36.72 | \$ 2.01 | \$ 24.41 | \$ 23.12 |
| Proved plus probable finding and development costs | | | | |
| Capital expenditures ⁽¹⁾ (\$000) | \$ 52,687 | \$ 2,029 | \$ 83,765 | \$ 138,481 |
| Change in future capital costs (\$000) | 15,347 | 5,586 | 7,633 | 28,566 |
| Total capital (\$000) | \$ 68,034 | \$ 7,615 | \$ 91,398 | \$ 167,047 |
| Reserve additions ⁽³⁾ (mboe) | 2,786 | 2,153 | 5,284 | 10,223 |
| Total proved plus probable finding and development costs (\$/boe) | \$ 24.42 | \$ 3.54 | \$ 17.30 | \$ 16.34 |

(1) Capital expenditures include capitalized G&A which has been allocated between oil and natural gas operations and acquisitions, and exclude purchases of equipment still held in inventory and administrative capital expenditures.

(2) Reserve additions exclude revisions.

(3) Reserve additions include revisions.

(4) The aggregate of the exploration and development costs incurred in the most recent financial year and the change during that year in estimated future development costs generally will not reflect total finding and development costs related to reserve additions for that year.

Management's Discussion and Analysis

Finding, development and acquisition ("FD&A") costs are broken down according to oil and natural gas operations, acquisitions and dispositions, and total activities. Oil and natural gas operations include all capital activities in which the Company participated, including operations on the acquired properties after their respective closing dates, but exclude reserve revisions. FD&A costs on the acquired properties are based on the reserve evaluation as at each respective year-end less new reserves from operations post-closing and were increased by the amount of production from the closing date to December 31 of the respective year to provide an estimate of the reserves purchased. FD&A costs on the disposed properties are based on the reserve evaluation as at December 31, 2005 and were decreased by the amount of production to the closing date. FD&A costs for total activities include operations, acquisitions, dispositions and reserve revisions.

Finding and development costs on operations increased in 2007 compared to 2006 and 2005 as Rock spent more capital in the higher cost West Central core area versus the relatively less expensive Plains core area in order to test the Company's exploration prospects, particularly Saxon and Kakwa. While the operations were successful these projects did not come on-stream in 2007 and as a result reserve bookings, in management's view, are conservative given the lack of production history. In addition a significant amount of land, seismic and infrastructure costs (including future capital) are incurred for these projects. Future drilling locations should benefit from these expenditures. Rock completed the Greenbank acquisition at the end of the third quarter of 2007 and the reserve report contains a significant amount of future capital given the down spacing opportunities that exist on this land base. The FD&A calculations in the table above do not exclude any amounts for undeveloped land, valued at \$5 million at the time of closing. Overall FD&A costs are high for 2007 and include significant technical revisions in our heavy oil properties particularly at Edam where the Company experienced the natural gas migration issue. Remediation efforts are currently underway to remove the natural gas from the oil zones and further restore production. If successful, management would expect to see a positive reserve revision in the future. On a three year basis the FD&A costs are in our view more reflective of the progress made in growing the Company and generate recycle ratios (FD&A divided by operating netback) of 1.9:1 for operations and 1.5:1 overall.

Land Holdings

The following table summarizes Rock's land holdings as at December 31, 2007 and 2006:

| (acres) | Dec. 31, 2007 | Dec. 31, 2006 | Change |
|-------------|------------------|------------------|--------|
| Developed | | | |
| Gross | 87,882 | 63,085 | 39% |
| Net | 32,406 | 23,566 | 38% |
| Undeveloped | | | |
| Gross | 135,069 | 76,030 | 78% |
| Net | 61,718 | 39,429 | 57% |
| Total | | | |
| Gross | 222,951 | 139,115 | 60% |
| Net | 94,123 | 62,995 | 49% |

Net Asset Value

The following table summarizes Rock's net asset value and net asset value per share as at December 31, 2007 and December 31, 2006:

| (\$000 except number of shares and net asset value per share) | Dec. 31, 2007 | Dec. 31, 2006 | Change |
|---|------------------|------------------|--------|
| Proved plus probable reserves ^{(1) (2)} | 152,420 | 105,688 | 44% |
| Undeveloped land ⁽³⁾ | 13,380 | 8,220 | 63% |
| Working capital including debt | (29,094) | (12,580) | 132% |
| Net asset value (basic) | 136,706 | 101,328 | 35% |
| Basic shares (000) | 25,878 | 19,637 | 32% |
| Net asset value per share (basic) | \$ 5.28 | \$ 5.16 | 2% |
| Option proceeds | 7,893 | 7,405 | 7% |
| Net asset value (diluted) | 144,599 | 108,733 | 33% |
| Diluted shares (000) | 28,185 | 21,405 | 32% |
| Net asset value per share (diluted) | \$ 5.13 | \$ 5.08 | 1% |

(1) Proved plus probable reserves value is based on the net present value of future net revenue from gross reserves using GLJ Petroleum Consultants Ltd.'s January 2007 and 2006 forecast pricing and costs estimates and using a discount rate at 10 percent.

(2) Reserve values are based on the existing Alberta royalty regime.

(3) Undeveloped land value is based on the actual cost of land purchased at land sales; land acquired from ELM/Optimum/Qwest in the second quarter of 2005 has been valued at \$100 per acre and land acquired through the Greenbank acquisition in the third quarter of 2007 has been valued at \$200 per acre.

Reserve values in the above table are based on the existing Alberta royalty regime. GLJ Petroleum Consultants Ltd. prepared high and low sensitivity cases under the proposed Alberta royalty regime based on assumptions that all independent consulting firms agreed to use in their evaluations. The low royalty sensitivity case assumes that a heavy oil par price is used in the royalty calculations, solution natural gas royalties are calculated using the same rate and price basis as non-associated natural gas, and the deep natural gas royalty adjustment is applied to all existing and future wells. The high royalty sensitivity case assumes that a light oil par price is used in the royalty calculations for heavy oil, solution natural gas royalties are calculated using the same rate and price basis as non-associated natural gas but restricted to no less than the current royalty rate of 30 percent on solution natural gas, and the deep natural gas royalty adjustment is applied only to wells drilled after 2008.

The following table summarizes Rock's proved and probable reserve values, net asset value and net asset value per share as at December 31, 2007 under the different royalty assumptions:

| (\$000 except number of shares and net asset value per share) | Dec. 31, 2007 Existing Royalty | Dec. 31, 2007 Low Royalty | Dec.31, 2007 High Royalty |
|---|-----------------------------------|------------------------------|------------------------------|
| Proved plus probable reserves ⁽¹⁾ | 152,420 | 152,420 | 144,747 |
| Net asset value (basic) | 136,706 | 136,706 | 129,033 |
| Basic shares (000) | 25,878 | 25,878 | 25,878 |
| Net asset value per share (basic) | \$ 5.28 | \$ 5.28 | \$ 4.99 |
| Net asset value (diluted) | 144,599 | 144,599 | 136,926 |
| Diluted shares (000) | 28,185 | 28,185 | 28,185 |
| Net asset value per share (diluted) | \$ 5.13 | \$ 5.13 | \$ 4.86 |

(1) Proved plus probable reserves value is based on the net present value of future net revenue from gross reserves using GLJ Petroleum Consultants Ltd.'s January 2007 forecast pricing and costs estimates and using a discount rate at 10 percent.

Management's Discussion and Analysis

Contractual Obligations

In the course of its business, the Company enters into various contractual obligations including the following:

- royalty agreements;
- processing agreements;
- right-of-way agreements; and
- lease obligations for office premises.

Obligations with a fixed term are as follows:

| | 2008 | 2009 | 2010 | 2011 | 2012 |
|---------------------------------|-----------|--------|--------|--------|--------|
| Office premise leases | \$ 895 | \$ 828 | \$ 828 | \$ 828 | \$ 552 |
| Processing agreements | 450 | 360 | 288 | 238 | 159 |
| Demand bank loan ⁽¹⁾ | \$ 27,405 | | | | |

(1) The demand bank loan is currently under its annual review and is expected to remain in place.

Outstanding Share Data

At December 31, 2007 and to date, Rock had 25,877,642 common shares outstanding. At December 31, 2007 the Company had 2,307,822 stock options outstanding with an average exercise price of \$3.42 per share. As of the date hereof Rock has 2,145,363 options outstanding.

Off-balance-sheet Arrangements

Rock does not have any special-purpose entities nor is it party to any arrangement that would be excluded from the balance sheet.

Related-party Transactions

The Company has not entered into any related-party transactions during the reporting period.

Disclosure Controls And Procedures

The Company has a corporate disclosure policy that is distributed to and made available to staff through the corporate computer network. The policy is reviewed by the Chief Executive Officer, Chief Financial Officer and the Board of Directors annually. Procedures were developed and put in place in support of the disclosure policy. The Chief Executive Officer and the Chief Financial Officer have evaluated the effectiveness of the disclosure controls and procedures as at December 31, 2007 and, based on that evaluation, believe them to be effective given the size and nature of the Company's operations. All control systems by their nature have inherent limitations and, therefore, Rock's disclosure controls and procedures are believed to provide reasonable, but not absolute, assurance that:

- the communications by the Company with the public are timely, factual and accurate and broadly disseminated in accordance with all applicable legal and regulatory requirements;
- non-publicly disclosed information remains confidential; and
- trading of the Company's securities by directors, officers and employees remains in compliance with applicable securities laws.

Internal Controls Over Financial Reporting

The Chief Executive Officer and the Chief Financial Officer have supervised the design of internal controls over financial reporting and these controls were in place as at December 31, 2007. The Company acquired Greenbank at the end of the third quarter of 2007 and assimilated the accounts into Rock's existing accounts and as a result there was no material change to the design of internal controls over financial reporting. In addition the Company did not make any other material change to internal controls in 2007. The Chief Executive Officer and the Chief Financial Officer believe the internal controls, including compensating controls to overcome the lack of certain segregation of duties, are designed appropriately given the nature and size of the Company's operations, and that a material deficiency in design does not exist. Because of their inherent limitations, internal controls over financial reporting may not prevent or detect misstatements, errors or fraud. Control systems, no matter how well conceived or operated, can provide only reasonable, not absolute assurance that the objectives of the control systems are met.

Change In Accounting Policies

As of January 1, 2007 the Company adopted new policies to implement the pronouncements from the Canadian Institute of Chartered Accountants in respect of financial instruments – presentation and disclosures, hedging and other comprehensive income. The new standards require certain financial instruments to be recognized on the balance sheet at their fair value. The application of these policies did not result in changes to amounts reported in the consolidated financial statements for the period ended December 31, 2007.

New Accounting Pronouncements

Capital Disclosures

The Canadian Institute of Chartered Accountants (CICA) issued CICA Handbook section 1535, Capital Disclosures. The section is effective for fiscal years beginning on or after October 1, 2007. It requires disclosure on objectives, policies and processes for managing capital.

Rock will adopt this section effective January 1, 2008.

Financial Instruments – Disclosures and Presentation

The Canadian Institute of Chartered Accountants (CICA) issued CICA Handbook section 3862, Financial Instruments – Disclosures and section 3863, Financial Instruments – Presentation which replace section 3861, Financial Instruments – Disclosures and Presentation. These sections are effective for fiscal years beginning on or after October 1, 2007. Section 3863 does not change the presentation requirements of the previous section 3861 however, section 3862 places new increased emphasis on the nature and extent of risks arising from financial instruments and how they are managed. Rock will adopt this section effective January 1, 2008.

International Financial Reporting Standards

The Canadian Institute of Chartered Accountants proposed to implement International Financial Reporting Standards ("IFRS") as part of Canadian GAAP. The adoption of IFRS in Canada will result in significant changes to current Canadian GAAP and to financial reporting practices followed by Rock. IFRS accounting standards are scheduled to be implemented for years beginning after December 31, 2010. Rock will be required to adopt the standard for the year beginning January 1, 2011. Currently, the application of IFRS in Canada and particularly to the oil and natural gas industry requires further clarification and as a result the effect of IFRS adoption on the Company's accounting policies and reporting standards and practices is not presently determinable.

Critical Accounting Estimates

A summary of the Company's significant accounting policies is contained in note 2 to the audited consolidated financial statements. These accounting policies are subject to estimates and key judgements about future events, many of which are beyond Rock's control. The following is a discussion of the accounting estimates that are critical to the financial statements.

Oil and Natural Gas Accounting – Reserves Recognition

Rock retained independent petroleum engineering consultants GLJ Petroleum Consultants Ltd. (GLJ) to evaluate its oil and natural gas reserves, prepare an evaluation report, and report to the Company's Reserves Committee. The process of estimating oil and natural gas reserves is subjective and involves a significant number of decisions and assumptions in evaluating available geological, geophysical, engineering and economic data. These estimates will change over time as additional data from ongoing development and production activities becomes available and as economic conditions affecting oil and natural gas prices and costs change. Reserves can be classified as proved, probable or possible with decreasing levels of certainty to the likelihood that the reserves will be ultimately produced.

Oil and Natural Gas Accounting – Full Cost Accounting

Under the full cost method of accounting for exploration and development activities, all costs associated with these activities are capitalized. The aggregate net capitalized costs and estimated future abandonment costs, less estimated salvage values, are amortized using the unit-of-production method based on estimated proved oil and natural gas reserves, resulting in a depletion expense. The depletion expense is most affected by the estimate of proved reserves and the cost of unproved properties. Unproved costs are reviewed quarterly to determine if proved reserves have been established, at which point the associated costs are included in the depletion calculation. Changes to any of these estimates may affect Rock's earnings.

Under the full cost method of accounting, the Company's investment in oil and natural gas assets is evaluated at least annually to consider whether the investment is recoverable and the carrying amount does not exceed the value of the properties, a process known as the "ceiling test". The carrying value of oil and natural gas properties and production equipment is compared to the sum of undiscounted cash flows expected to result from Rock's proved reserves. If the carrying value is not fully recoverable, the amount of impairment is measured by comparing the carrying value of property and equipment to the estimated net present value of future cash flows from proved plus probable reserves using a risk-free interest rate. Any excess carrying value above the net present value of the future cash flows is recorded as a permanent impairment. Reserve, revenue, royalty and operating cost estimates and the timing of future cash flows are all critical components of the ceiling test. Revisions of these estimates could result in a write-down of the carrying amount of oil and natural gas properties.

Asset Retirement Obligations

The Company recognizes the estimated fair value of an asset retirement obligation (ARO) in the period in which it is incurred as a liability, and records a corresponding increase in the carrying value of the related asset. The future asset retirement obligation is an estimate based on the Company's ownership interest in wells and facilities and reflects estimated costs to complete the abandonment and reclamation as well as the estimated timing of the costs to be incurred in future periods. Estimates of the costs associated with abandonment and reclamation activities require judgement concerning the method, timing and extent of future retirement activities. The capitalized amount is depleted on a unit-of-production method over the life of the proved reserves. The liability amount is increased each reporting period due to the passage of time and this accretion amount is charged to earnings in the period. Actual costs incurred on settlement of the ARO are charged against the ARO. Judgements affecting current and annual expense are subject to future revisions based on changes in technology, abandonment timing, costs, discount rates and the regulatory environment.

Stock-based Compensation

Stock options issued to employees and directors under the Company's stock option plan are accounted for using the fair value method of accounting for stock-based compensation. The fair value of the option is recognized as stock-based compensation expense and contributed surplus over the vesting period of the option. Stock-based compensation expense is determined on the date of an option grant using the Black-Scholes option pricing model. The Black-Scholes pricing model requires the estimation of several variables including estimated volatility of Rock's stock price over the life of the option, estimated option forfeitures, estimated life of the option, estimated risk-free rate and estimated dividend rate. A change to these estimates would alter the valuation of the option and would result in a different related stock-based compensation expense.

Goodwill

The Company recognized goodwill in conjunction with the Elm/Optimum/Qwest acquisitions that occurred in the second quarter of 2005. In assessing if goodwill has been impaired the Company assesses the fair value of its assets and liabilities. This assessment takes into consideration such factors as: the estimated fair value of the Company's reserves and unproven properties; the current trading value of the common shares; and recent market transactions for similar types of assets. If the Company's common share trading value was to deteriorate from current levels an impairment to goodwill might exist.

Business Risks

Rock is exposed to a number of business risks, some of which are beyond its control, as are all companies in the oil and natural gas exploration and production industry. These risks can be categorized as operational, financial and regulatory.

Operational risks include generating, finding and developing, and acquiring oil and natural gas reserves on an economical basis (including acquiring land rights or gaining access to land rights); reservoir production performance; marketing; production; hiring and retaining employees; and accessing contract services on a cost-effective basis. Rock attempts to mitigate these risks by employing highly qualified staff and operating in areas where employees have expertise. In addition the Company outsources certain activities to be able to lever industry expertise, without having the burden of hiring full-time staff given the current scope of operations. Typically the Company has outsourced the marketing and certain engineering and land functions. Rock is attempting to acquire oil and natural gas operations; however Rock will be competing against many other companies for such operations, many of which will have greater access to resources. As a small company, gaining access to contract services may be difficult given the competitive nature of the industry, but Rock will attempt to mitigate this risk by utilizing existing relationships.

Financial risks include commodity prices, the Canadian/US dollar exchange rate and interest rates, all of which are largely beyond the Company's control. Currently Rock has not used any financial instruments to mitigate these risks. The Company would consider using these financial instruments depending on the operating environment. The Company also will require access to capital. Currently Rock has a debt facility in place and intends to use its debt capacity in the future in conjunction with capital expenditures including acquisitions. It intends to use prudent levels of debt to fund capital programs based on the expected operating environment. It also intends to access equity markets to fund opportunities; however, the ability to access these markets will be determined by many factors, many of which will be beyond the control of the Company.

Rock is subject to various regulatory risks, principally environmental in nature. The Company has put in place a corporate safety program and a site-specific emergency response program to help manage these risks. The Company hires third-party consultants to help develop and manage these programs and help Rock comply with current environmental legislation. Increased public and political concern regarding climate change issues will likely result in increased regulation regarding emissions standards. Given that the Company produces hydrocarbons, such regulation could cause Rock to alter the way it operates and also result in additional costs and taxes associated with climate change regulation which could have a material effect on the Company.

Additional Information

Further information regarding the Company, including the Company's Annual Information Form, can be accessed under the Company's public filings found on SEDAR at www.sedar.com. Information can also be obtained by contacting the Company at Rock Energy Inc., Suite 800, 607-8th Avenue S.W., Calgary, Alberta, T2P 0A7, or at the Corporate website at www.rockenergy.ca.