



Management's Discussion & 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 discussion and analysis is dated March 15, 2007 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, 2006.

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 are a key measure that demonstrates the ability to generate cash to fund expenditures. Funds from operations are 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 are 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 7, 2006 for projected 2006 and 2007 results. The table below provides the guidance for 2006 with actual results.

2006 Guidance

	2006 Guidance	Actual	Change
2006 Production (boe/d)			
Annual	2,100	2,098	0%
Exit	2,200-2,400	2,200	(4)%
2006 Funds from Operations			
Annual	\$13.5 million	\$13.9 million	3%
Annual (per share)	\$0.69	\$0.71	3%
2006 Capital Budget			
Expenditures	\$30 million	\$33 million	10%
Gross wells drilled	31	33	6%
Total net debt at year end	\$11 million	\$12.6 million	15%
Pricing (Fourth Quarter)			
Oil – WTI	US\$60.00/bbl	US\$60.21/bbl	0%
Natural gas – AECO	\$6.67/mcf	\$6.69/mcf	0%
US/Cdn dollar exchange rate	0.90	0.88	(2)%

Production averages for the year and the exit rate were within the guidance range. Funds flow from operations was above guidance as higher pricing (lower than budgeted heavy oil differentials and higher realized natural gas prices) more than offset higher operating costs. Capital expenditures were higher than forecast as \$2 million of the

2007 capital budget was accelerated into December 2006 in order to take advantage of rig availability and operational efficiencies to drill four (4.0 net) heavy oil wells. As a result debt levels at year-end were slightly above guidance.

Guidance for 2007 has been updated to reflect higher operating costs experienced by the Company and industry and acceleration of the 2007 capital budget into December 2006. The table below updates the Company's previous guidance that was issued November 7, 2006.

	2007 Previous Guidance	2007 Revised Guidance	Change
2007 Production (<i>boe/d</i>)			
Annual	2,200	2,200-2,400	5%
Exit	2,600-2,800	2,600-2,800	0%
2007 Funds from Operations			
Annual	\$15 million	\$15 million	0%
Annual – (<i>per share</i>)	\$0.76	\$0.76	0%
2007 Capital Budget			
Expenditures	\$22 million	\$20 million	(9)%
Gross wells drilled	20-25	16-21	(18)%
Total net debt at year-end	\$18 million	\$18 million	0%
Pricing (Annual)			
Oil – WTI	US\$65.00/bbl	US\$65.00/bbl	0%
Natural gas – AECO	Cdn\$7.50/mcf	Cdn\$7.50/mcf	0%
US/Cdn dollar exchange rate	0.90	0.90	0%

Operating costs have been trending up and, as a result, Rock has increased the per boe cost by \$0.50/boe to approximately \$11.25 per boe including transportation costs. The acceleration of capital into December 2006 has caused management to implement an annual average range for production as the wells drilled came on-stream in the first quarter instead of the third quarter. The annual cash flow associated with the increased production has been offset by the increase in operating costs. As a result, the year's cash flow and year-end debt levels have not been affected. While light oil pricing has initially been lower than forecast for 2007, heavy oil differentials have improved and, as a result, we have not altered our oil price. The Company has put in a new debt facility which increased the bank line from \$18 million to \$23 million. Capital expenditures in excess of funds from operations are projected to be \$5 million and can be funded through this facility. The year-end debt to cash flow ratio is projected to be approximately 1.2:1. 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.

Production by Product

	12 Months Ended 12/31/06	12 Months Ended 12/31/05	Change	3 Months Ended 12/31/06	3 Months Ended 12/31/05	Change
Natural gas (mcf/d)	6,421	4,476	43%	3,528	8,147	(57)%
Oil (bbls/d)	179	133	35%	206	207	(1)%
Heavy Oil (bbls/d)	792	187	324%	1,168	480	143%
NGL (bbls/d)	57	56	2%	42	75	(44)%
Total (boe/d) (6:1)	2,098	1,122	87%	2,004	2,120	(5)%

Production by Area

	12 Months Ended 12/31/06	12 Months Ended 12/31/05	Change	3 Months Ended 12/31/06	3 Months Ended 12/31/05	Change
West Central Alberta (boe/d)	972	598	63%	652	1,189	(45)%
Plains (boe/d)	795	242	229%	1,171	510	130%
Other (boe/d)	331	282	17%	181	421	(57)%
Total (boe/d) (6:1)	2,098	1,122	87%	2,004	2,120	(5)%

Production increases for the year ended December 31, 2006 primarily came from two sources. First are the ELM/Optimum/Qwest acquisitions that were completed in stages and closed in April and June 2005, partially offset by the sale of approximately 820 boe per day of production in July 2006. Second, the Company's operated grassroots drilling program contributed the heavy oil additions in the Plains area and additional production from drilling on the acquired properties. Early in January 2007 Rock's production exceeded 2,200 boe per day.

Production decreased by 5 percent in the fourth quarter of 2006 from the same period last year as the property dispositions in the third quarter more than offset the additions from operational activities. Production additions in the quarter primarily came from the Plains core area, which added heavy oil production, and the workovers completed at Medicine River, which added light oil production. As a result of these activities the Company's product mix shifted more towards heavy oil.

Product Prices

	12 Months Ended 12/31/06	12 Months Ended 12/31/05	Change	3 Months Ended 12/31/06	3 Months Ended 12/31/05	Quarterly Change
Realized Product Prices						
Natural gas (\$/mcf)	7.07	10.22	(31)%	7.45	12.06	(38)%
Oil (\$/bbl)	64.46	64.95	(1)%	57.77	63.63	(9)%
Heavy oil (\$/bbl)	38.35	27.44	40%	34.86	24.81	41%
NGL (\$/bbl)	61.35	56.19	9%	65.47	58.80	11%
Combined average (\$/boe) (6:1)	43.27	55.85	(23)%	40.73	60.29	(32)%

	12 Months Ended 12/31/06	12 Months Ended 12/31/05	Change	3 Months Ended 12/31/06	3 Months Ended 12/31/05	Quarterly Change
Average Reference Prices						
Natural gas – Henry Hub Daily Spot (US\$/mcf)	6.75	8.89	(24)%	6.69	12.27	(45)%
Natural gas – AECO C Daily Spot (\$/mcf)	6.54	8.77	(25)%	6.99	11.43	(39)%
Oil – WTI Cushing, Oklahoma (US\$/bbl)	66.22	56.56	17%	60.21	60.02	0%
Oil – Edmonton Light (\$/bbl)	72.77	68.72	6%	64.49	71.17	(9)%
Heavy Oil – Lloydminster blend (\$/bbl)	50.07	42.99	16%	43.84	41.81	5%
US/Cdn \$ exchange rate	0.882	0.826	7%	0.878	0.852	3%

For the year and quarter ended December 31, 2006 the Company experienced higher heavy oil prices (approximately 40 percent increase) and lower natural gas prices (more than 30 percent reduction) than in the prior year's periods. Higher heavy oil prices resulted from higher WTI prices for the year and a significant decrease in the heavy oil to light oil differential. Structural changes in the marketplace such as pipeline reversals that have taken more heavy crude production out of Alberta to refineries in the mid-continent United States have contributed to the improvement in the heavy oil differential. The Company expects that these and other structural changes will continue to benefit the heavy oil market price. Natural gas prices have suffered from high storage levels as winter was delayed and the fourth quarter of 2006 was warmer than average. The combination of lower natural gas prices and the increase in heavy oil production in Rock's product mix over 2005 has caused the Company's weighted average per boe price to decrease by 23 percent for the year and 32 percent for the fourth quarter from the prior year's periods.

REVENUE

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

Oil and Natural Gas Revenue

	12 Months Ended 12/31/06	12 Months Ended 12/31/05	Change	3 Months Ended 12/31/06	3 Months Ended 12/31/05	Quarterly Change
Natural gas	\$ 16,560	\$ 16,695	(1)%	\$ 2,408	\$ 9,043	(73)%
Oil	4,195	3,152	33%	1,073	1,214	(12)%
Heavy Oil	11,124	1,871	495%	3,790	1,095	246%
NGL	1,277	1,155	11%	264	408	(35)%
	33,156	22,873	45%	7,535	11,760	(36)%
Other revenue	\$ 198	\$ 317	(38)%	\$ 42	\$ 100	(58)%

Oil and natural gas revenue increased by 45 percent for the year ended December 31, 2006 over 2005 due to higher production levels, particularly of heavy oil, which more than offset the decline in product prices, particularly of natural gas. For the fourth quarter of 2006 oil and natural gas revenue decreased by 36 percent from the same period in 2005 as lower natural gas production and prices more than offset the increase in heavy oil production and prices. Other revenue decreased in 2006 from 2005 as the Company sold the property that was generating sulphur as part of the asset rationalization program in the third quarter of 2006.

Royalties

	12 Months Ended 12/31/06	12 Months Ended 12/31/05	Change	3 Months Ended 12/31/06	3 Months Ended 12/31/05	Quarterly Change
Royalties	\$6,881	\$5,027	37%	\$1,452	\$2,666	(46)%
As a percentage of oil and natural gas revenue	20.8%	22.0%	(5)%	19.3%	22.7%	(15)%
Per boe (6:1)	\$8.98	\$12.28	(27)%	\$7.88	\$13.67	(42)%

Royalties increased for the year ended December 31, 2006 over the prior year due to higher production levels partially offset by lower natural gas prices and the benefit of Alberta Royalty Tax Credit (ARTC). For the fourth quarter of 2006 royalties decreased from the fourth quarter of 2005 due to lower production, lower natural gas prices and the ARTC benefit. Royalties as a percentage of revenue and on a per-boe basis decreased in the 2006 periods from the 2005 periods primarily due to lower natural gas prices, ARTC benefit and the Company's production mix including a higher heavy oil component, which generally has a lower associated royalty rate. The Company is forecasting a royalty rate of 22 percent for 2007 as the ARTC program has been eliminated effective January 1, 2007.

Operating Expenses

	12 Months Ended 12/31/06	12 Months Ended 12/31/05	Change	3 Months Ended 12/31/06	3 Months Ended 12/31/05	Quarterly Change
Operating expense	\$ 8,947	\$ 4,470	100%	\$ 2,429	\$ 2,149	13%
Transportation costs	308	275	12%	83	158	(47)%
	9,255	4,745	95%	2,512	2,307	9%
Per boe (6:1)	\$12.08	\$11.59	4%	\$13.63	\$11.83	15%

Operating costs for the year ended December 31, 2006 have increased over 2005 primarily due to higher production. Operating expenses for both the year ended December 31, 2006 and the fourth quarter of 2006 include approximately \$200 of natural gas processing costs related to 2005. Excluding these prior-period processing costs, operating costs for 2006 are \$11.83 per boe, a 2 percent increase over 2005, and \$12.56 per boe for the fourth quarter of 2006, a 6 percent increase over the prior period. Compared to the third quarter of 2006, fourth quarter per boe operating expenses have decreased by 4 percent once the 2005 processing costs are excluded. Operating costs per boe did not decrease as much as expected in the fourth quarter in part due to higher service costs associated with heavy oil operations and higher road and lease maintenance costs.

Heavy oil unit costs tend to be higher in the first several months of producing operations (the “clean-up period”) due to high initial sand production, additional fuel costs incurred until the operation is capable of running on casing-head gas and injected load oil being used during the clean-up period, which reduces the sales volume from the operations. Heavy oil operating costs have decreased year-over-year by about 20 percent to about \$13.00 per boe as the base level of production has increased and start-up operations have less of an impact on overall costs. The Company expects heavy oil costs per boe to continue to decrease in 2007. Transportation costs for the fourth quarter of 2006 decreased from the prior year’s period as a result of the properties sold in the third quarter of 2006. Operating expenses per boe, including transportation expense, are forecast to be approximately \$11.25 per boe in 2007.

General and Administrative (G&A) Expense

	12 Months Ended 12/31/06	12 Months Ended 12/31/05	Change	3 Months Ended 12/31/06	3 Months Ended 12/31/05	Quarterly Change
Gross	\$ 3,905	\$ 2,275	69%	\$ 1,085	\$ 814	27%
Per boe (6:1)	5.10	5.55	(9)%	5.89	4.17	34%
Capitalized	1,627	864	83%	395	288	19%
Per boe (6:1)	2.12	2.11	(2)%	2.14	1.47	26%
Net	2,278	1,411	61%	690	526	31%
Per boe (6:1)	\$2.97	\$3.44	(14)%	\$3.74	\$2.70	39%

G&A expense increased on an absolute basis in 2006 over 2005 as the Company’s operations continued to grow and new staff was added. G&A expense on a per-boe basis for the year ended December 31, 2006 dropped from the prior year’s period as production increased. For the fourth quarter of 2006, G&A expense per boe increased over 2005 as production decreased as a result of the property dispositions in the third quarter of 2006, because costs for year-end activities increased and because approximately \$56 (\$0.30 per boe) of bad debt related to the ELM/Optimum/Qwest acquisition was written off. Rock capitalizes certain G&A expenses based on personnel involved in the exploration and development initiatives, including salaries and related overhead costs. G&A expenses are expected to rise in 2007 on an absolute basis as industry costs increase.

Interest Expense

	12 Months Ended 12/31/06	12 Months Ended 12/31/05	Change	3 Months Ended 12/31/06	3 Months Ended 12/31/05	Quarterly Change
Interest expense (recovery)	\$ 924	\$ 457	100%	\$ 141	\$ 261	(46)%
Per boe (6:1)	\$1.21	\$1.12	8%	\$0.76	\$1.34	(43)%

Interest expense for 2006 doubled over 2005 as a result of higher average bank debt for the year. For the fourth quarter of 2006 interest expense was about half of interest expense for the same period of 2005 as bank debt was reduced in the third quarter of 2006 with proceeds from the asset rationalization program. Interest expense is expected to increase in 2007 due to higher average bank debt but to be approximately the same on a per boe basis as in 2006.

Depletion, Depreciation, and Accretion (DD&A)

	12 Months Ended 12/31/06	12 Months Ended 12/31/05	Change	3 Months Ended 12/31/06	3 Months Ended 12/31/05	Quarterly Change
D&D expense	\$ 13,989	\$ 8,211	70%	\$ 2,707	\$ 3,994	(32)%
Per boe (6:1)	\$18.27	\$20.05	(9)%	\$14.69	\$20.48	(28)%
Accretion expense	\$ 129	\$ 76	70%	\$ 34	\$ 31	10%
Per boe (6:1)	\$0.17	\$0.19	(11)%	\$0.18	\$0.16	13%

Depletion and depreciation expense for year ended December 31, 2006 increased over the prior year due to higher production but decreased for the fourth quarter of 2006 from the 2005 period primarily as Company reserves increased faster than the cost base. Reserve additions in 2006 also caused the depletion and depreciation expense per boe to decrease in 2006 from 2005.

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 or constructing facilities. Similarly, this obligation can also be reduced as a result of abandonment work undertaken and reducing future obligations. During the year ended December 31, 2006 capital programs increased the underlying ARO by \$413 (December 31, 2005 – \$1,583) and actual expenditures on abandonments were \$104 (December 31, 2005 – \$44).

INCOME TAX

The Company began to pay capital taxes in 2005 as its capital base increased significantly following the acquisitions in 2005. Federal large corporations tax was eliminated beginning in 2006; however, 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 2007 as the Company and its subsidiaries have estimated resource and other pools available at December 31, 2006 (after the allocation of deferred partnership income) of approximately \$55.2 million as set out below:

CEE	\$ 14.9 million
CDE	\$ 25.9 million
UCC	\$ 12.8 million
Loss carry-forwards	\$ 0.3 million
Other	\$ 1.3 million
Total	\$ 55.2 million

Funds from Operations and Net Income

	12 Months Ended 12/31/06	12 Months Ended 12/31/05	Change	3 Months Ended 12/31/06	3 Months Ended 12/31/05	Quarterly Change
Funds from operations	\$13,867	\$11,433	21%	\$2,644	\$6,020	(56)%
Per boe (6:1)	\$18.11	\$27.92	(35)%	\$14.35	\$30.86	(54)%
Per share:						
Basic	\$0.71	\$ 0.74	(4)%	\$0.13	\$ 0.31	(58)%
Diluted	\$0.71	\$ 0.74	(4)%	\$0.13	\$ 0.31	(58)%
Net income (loss)	(\$884)	\$ 1,510	(159)%	(\$119)	\$ 747	(116)%
Per boe (6:1)	(\$1.15)	\$3.69	(131)%	(\$0.65)	\$3.83	(117)%
Per share:						
Basic	(\$0.05)	\$ 0.10	(150)%	(\$0.01)	\$ 0.04	(125)%
Diluted	(\$0.05)	\$ 0.10	(150)%	(\$0.01)	\$ 0.04	(125)%
Weighted average shares outstanding:						
Basic	19,637	15,437	27%	19,637	19,596	0%
Diluted	19,655	15,501	27%	19,637	19,682	0%

The Company did not issue any shares in 2006. In 2005 the majority of shares issued were for the acquisitions completed in the second quarter of 2005, when 10.3 million shares were issued.

Funds from operations for the year ended December 31, 2006 increased by 21 percent over 2005 as the increase in production more than offset the decrease in realized prices, primarily for natural gas, and the increase in royalties, operating, G&A and interest costs. On a per-boe basis 2006 funds from operations decreased by 35 percent from 2005 primarily as the reduction in realized prices more than offset the reduction in royalties. For the fourth quarter of 2006 funds from operations decreased by approximately 56 percent on an absolute and 54 percent on a per boe-basis from to the prior year's periods as the reduction in prices (primarily for natural gas) and increase in operating and G&A costs more than offset the reduction in royalties. The Company generated a net loss for the year and quarter ended December 31, 2006 as the level of depletion and increase in stock-based compensation exceeded funds from operations.

Capital Expenditures

(\$000)	12 Months Ended 12/31/06	12 Months Ended 12/31/05	Change	3 Months Ended 12/31/06	3 Months Ended 12/31/05	Quarterly Change
Land	\$ 4,822	\$ 3,737	29%	\$ 120	\$ 1,664	(93)%
Seismic	1,081	1,761	(39)%	127	878	(86)%
Drilling and completions	25,130	16,801	50%	5,758	5,783	0%
Capitalized G&A	1,627	865	88%	395	288	37%
Gas gathering systems	247	7	3,429%	—	35	(99)%
Total operations	\$ 32,907	\$ 23,171	42%	\$ 6,400	\$ 8,648	(26)%
Property acquisitions (dispositions)	(30,874)	60,593	(151)%	Nil	Nil	n/a
Well site facilities inventory	(165)	401	(141)%	(206)	(895)	(77)%
Office equipment	136	72	89%	39	15	160%
Total (net of acquisitions and dispositions)	\$ 2,004	\$ 84,237	(98)%	\$ 6,233	\$ 7,768	(20)%

Capital expenditures for operations increased for the year ended December 31, 2006 over 2005 as Rock drilled the same number of gross wells (33) but more net wells (28.3 in 2006 versus 22.4 in 2005) as the Company gained

more control over its operations. The Company participated in more West Central core area operations, including re-completions and, as a result, drilling and completions costs increased by 50 percent. In total Rock participated in nine (6.1 net) re-completions, which included one (0.8 net) natural gas well in the Musreau area which is expected to be tied-in in the fourth quarter of 2007, when third-party facilities are expanded, and one (1.0 net) oil well at Medicine River, which was brought on-production in the fourth quarter of 2006.

Land expenditures increased as the Company continued to build its West Central core area presence. Seismic expenditures decreased as the number of programs shot in the Plains core area decreased with Rock's shift to the West Central core area. Total net capital expenditures were reduced to \$2 million in 2006 from \$84 million in 2005 as the proceeds from the Company's asset rationalization program essentially offset capital expenditures from operations. In 2005 the Company completed the ELM/Optimum/Qwest acquisitions which significantly increased total capital expenditures.

During 2006, Rock drilled 27 (27.0 net) operated wells and six (1.3 net) non-operated wells, achieving a 96 percent success rate, compared to 20 (20.0 net) operated wells and 13 (2.1 net) non-operated wells and an 82 percent success rate in 2005. In the Plains core area Rock drilled 25 (25.0 net) heavy oil wells and one (1.0 net) dry hole. All of the wells were operated and all successful wells were on-production at year end except four (4.0 net) wells drilled in December 2006, which were brought on-production in the first quarter of 2007. Rock had no production from the Plains area at the beginning of 2005 and exited with approximately 670 boe per day in 2005 and 1,250 boe per day in 2006. In the West Central Alberta core area in 2006 Rock drilled two (0.9 net) oil wells in the Niton area, three (1.2 net) natural gas wells and one (0.1 net) dry hole. Of the three gas wells two (1.1 net) were drilled in the Musreau area and are expected to be tied-in in the fourth quarter of 2007 along with the re-completed well. In aggregate the Musreau-area wells are projected to initially increase Rock's production by 300 boe per day once tied-in. For the fourth quarter of 2006 capital expenditures decreased by approximately \$2 million from 2005 levels as land and seismic activity decreased in the quarter.

LIQUIDITY AND CAPITAL RESOURCES

Rock's current approved capital budget for 2007 projects spending of \$20 million. In 2007 funds from operations are expected to be approximately \$15 million. The capital spending in excess of cash flow is intended to be funded through bank debt. Subsequent to year-end the Company arranged a new \$23 million bank facility with a different chartered bank to replace its existing bank facility. With year-end debt of \$12.6 million Rock has room to fund the \$5 million of capital expenditures in excess of expected cash flow for 2007. The new bank facility will be reviewed by April 30, 2007 with the Company's 2006 independent reserve report. Based on the drilling in the fourth quarter of 2006, Rock expects, subject to any changes to the bank's commodity price forecast, an increase to the borrowing base. The Company will continue to monitor capital expenditures, cash flow from operations and debt levels and make adjustments, in order to ensure the projected debt to cash flow ratio does not exceed 1.5:1.

The Company has a demand operating loan facility with a Canadian chartered bank. This facility was put in place subsequent to year-end with a new lender and the Company's previous facility was repaid. The new facility is subject to the bank's valuation of the Company's oil and natural gas assets and the credit currently available is \$23 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 un-drawn 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 facility is currently under its annual review. As at March 15, 2007 approximately \$14.7 million was drawn under the facility.

SELECTED ANNUAL DATA

The following table provides selected annual information for Rock. The Company changed its year-end at December 31, 2004 from March 31, 2004. In order to make comparisons of periods compatible, information presented for the 12-month period ended December 31, 2004 has been compiled by combining the nine-month period ended December 31, 2004 with the three-month period ended March 31, 2004.

	12 Months Ended 12/31/06	12 Months Ended 12/31/05	12 Months Ended 12/31/04
Production (boe/d)	2,098	1,122	181
Oil and natural gas revenues (\$000)	\$ 33,156	\$ 22,873	\$ 2,845
Average realized price (\$/boe)	\$43.27	\$ 55.85	\$ 43.02
Royalties (\$/boe)	\$8.98	\$ 12.28	\$ 9.89
Operating expense (\$/boe)	\$12.08	\$ 11.59	\$ 7.97
Operating netback (\$/boe)	\$22.21	\$ 31.98	\$ 25.16
Net G&A expense (\$000)	\$2,278	\$ 1,411	\$ 959
Stock-based compensation (\$000)	\$ 1,188	\$ 485	\$ 202
Funds from operations (\$000)	\$ 13,867	\$ 11,433	\$ 1,218
Per share – basic	\$0.71	\$ 0.74	\$ 0.14
Per share – diluted	\$0.71	\$ 0.74	\$ 0.14
Net income (loss)	(\$884)	\$ 1,510	\$ 571
Per share – basic	(\$0.05)	\$ 0.10	\$ 0.06
Per share – diluted	(\$0.05)	\$ 0.10	\$ 0.06
	As at 12/31/06	As at 12/31/05	As at 12/31/04
Total assets	\$ 85,306	\$ 99,604	\$ 25,057
Total liabilities	\$ 24,827	\$ 39,385	\$ 2,693

SELECTED QUARTERLY DATA

The following table provides selected quarterly information for Rock:

	3 Months Ended 12/31/06	3 Months Ended 09/30/06	3 Months Ended 06/30/06	3 Months Ended 03/31/06	3 Months Ended 12/31/05	3 Months Ended 09/30/05	3 Months Ended 06/30/05	3 Months Ended 03/31/05
Production (boe/d)	2,004	1,613	2,190	2,594	2,120	1,343	693	309
Oil and natural gas revenues (\$000)	\$ 7,535	\$ 7,023	\$ 8,774	\$ 9,824	\$ 11,760	\$ 7,030	\$ 2,924	\$ 1,159
Average realized price (\$/boe)	\$40.73	\$47.30	\$44.01	\$42.08	\$60.29	\$56.90	\$46.36	\$41.65
Royalties (\$/boe)	\$7.88	\$5.27	\$8.97	\$12.26	\$13.67	\$11.61	\$10.39	\$9.73
Operating expense (\$/boe)	\$13.63	\$13.13	\$10.55	\$11.55	\$11.83	\$13.19	\$8.62	\$9.49
Operating netback (\$/boe)	\$19.22	\$28.90	\$24.49	\$18.27	\$34.79	\$32.10	\$27.35	\$22.43
Net G&A expense (\$000)	\$ 690	\$ 477	\$ 462	\$ 649	\$ 526	\$ 329	\$ 282	\$ 274
Stock-based compensation (\$000)	\$ 295	\$ 308	\$ 305	\$ 280	\$ 257	\$ 131	\$ 55	\$ 42
Funds from operations (\$000)	\$ 2,644	\$ 3,791	\$ 4,028	\$ 3,404	\$ 6,020	\$ 3,552	\$ 1,469	\$ 392
Per share – basic	\$0.13	\$ 0.19	\$ 0.21	\$ 0.17	\$ 0.31	\$ 0.18	\$ 0.11	\$ 0.04
Per share – diluted	\$0.13	\$ 0.19	\$ 0.21	\$ 0.17	\$ 0.31	\$ 0.18	\$ 0.11	\$ 0.04
Net income (loss) (\$000)	(\$119)	\$ 891	(\$ 583)	(\$ 1,074)	\$ 747	\$ 634	\$ 77	\$ 51
Per share – basic	(\$0.01)	\$ 0.05	(\$ 0.03)	(\$ 0.05)	\$ 0.04	\$ 0.03	\$ 0.01	\$ 0.01
Per share – diluted	(\$0.01)	\$ 0.05	(\$ 0.03)	(\$ 0.05)	\$ 0.04	\$ 0.03	\$ 0.01	\$ 0.01
Capital expenditures (\$000)	\$ 6,223	\$ 12,520	\$ 4,397	\$ 9,728	\$ 7,768	\$ 7,920	\$ 66,411	\$ 2,138

	As at 12/31/06	As at 09/30/06	As at 06/30/06	As at 03/31/06	As at 12/31/05	As at 09/30/05	As at 06/30/05	As at 03/31/05
Working capital (\$000)	(\$12,580)	(\$8,990)	(\$31,135)	(\$30,766)	(\$24,442)	(\$22,643)	(\$18,093)	\$10,297

Production has grown over the last two quarters of 2006 subsequent to the asset rationalization program which was completed in the third quarter of 2006. Immediately following these dispositions Rock's production was approximately 1,400 boe per day. Production growth has primarily come from drilling operations in the Plains core area and well recompletions at the Medicine River property near Sylvan Lake. Over the same period corporate average product prices have decreased as natural gas and oil prices declined. Heavy oil prices decreased in the fourth quarter, as expected, due to seasonality but in general were higher than 2005 levels. Royalty rates have generally improved in 2006 as Rock's product mix became more heavily weighted to oil, which usually has a lower royalty rate than gas, and because of Rock receiving the ARTC benefit.

Operating costs per boe have fluctuated depending on the amount of heavy oil start-up operations in any particular period, and the fourth quarter of 2006 included \$200,000 relating to 2005 gas processing cost adjustments. Without these costs fourth quarter operating costs per boe would have decreased to \$12.57 per boe. Field netbacks generally declined in 2006 from 2005 due to lower product prices. G&A expenses continued to rise as staffing levels increased throughout the period as the Company's activity levels grew. Funds from operations and net income or loss have been primarily affected by the change in product prices as changes in operating costs and royalty rates tended to offset each other. Net capital expenditures were significantly impacted by the asset rationalization program in the third quarter of 2006, which generated proceeds of \$30.9 million, and by the acquisitions in the second quarter of 2005, which incurred costs of \$60.5 million. The second quarter of the year tends to be a slower operational period with respect to capital investments due to the effects of spring break-up.

Reserves

Rock's reserves have been independently evaluated by GLJ Petroleum Consultants Ltd. (GLJ) at year-end 2006. This is the third year in which GLJ has evaluated the Company's reserves. The reserves as at December 31, 2006 and 2005 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 2005 and year-end 2006. NI 51-101 requires reserves to be reconciled on a net basis (after deducting royalties but including any royalty interests) ("net interest"). In addition, in the tables below Rock has also provided a reserve reconciliation on a gross basis (before deducting royalties and without including any royalty interest) ("gross interest").

Rock's gross interest reserves at year-end 2006 are 4.4 million boe of proved reserves and 7.3 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 2.0 million boe of proved reserves and 3.6 million boe of proved plus probable reserves.

RESERVES RECONCILIATION

The following table is a reconciliation of Rock's gross interest reserves at December 31, 2006 using GLJ's forecast pricing and cost estimates as at December 31, 2006.

Reconciliation of Company Gross Interest Reserves by Principal Product Type (Forecast Prices and Costs)

Factors	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, 2005	331	427	111	146	1,128	2,096	14,427	19,657	3,974	5,946
Additions ⁽¹⁾	121	197	22	53	1,734	2,500	1,825	5,240	2,181	3,624
Technical revisions ⁽²⁾	36	41	8	6	132	(8)	(218)	(613)	140	(65)
Acquisitions	0	0	0	0	0	0	0	0	0	0
Dispositions	(10)	(12)	(1)	(1)	0	0	(6,186)	(8,358)	(1,042)	(1,406)
Production	(65)	(65)	(21)	(21)	(289)	(289)	(2,342)	(2,342)	(765)	(765)
December 31, 2006	413	588	118	183	2,705	4,299	7,506	13,584	4,488	7,334

⁽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.

The following table is a reconciliation of Rock's net interest reserves at December 31, 2006 using GLJ's forecast pricing and cost estimates as at December 31, 2006.

Reconciliation of Company Net Interest Reserves by Principal Product Type (Forecast Prices and Costs)

Factors	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, 2005	286	371	78	102	926	1,712	10,648	14,608	3,065	4,621
Additions ⁽¹⁾	88	144	17	39	1,397	2,010	1,531	4,192	1,757	2,891
Technical revisions ⁽²⁾	17	22	7	4	144	27	(234)	(570)	128	(43)
Acquisitions	0	0	0	0	0	0	0	0	0	0
Dispositions	(8)	(8)	0	0	0	0	(4,406)	(5,924)	(742)	(995)
Production	(30)	(30)	(18)	(18)	(260)	(260)	(1,588)	(1,588)	(572)	(572)
December 31, 2006	353	499	84	128	2,207	3,489	5,951	10,719	3,636	5,902

⁽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.

RESERVES AND NET PRESENT VALUE (FORECAST PRICES AND COSTS)

The following tables summarize Rock's remaining oil and natural gas reserve volumes along with the value of future net revenue utilizing GLJ's forecast pricing and cost estimates as at December 31, 2006.

Reserves

Reserves Category	Oil		NGL		Heavy Oil		Natural Gas	
	Gross (mdbl)	Net (mdbl)	Gross (mdbl)	Net (mdbl)	Gross (mdbl)	Net (mdbl)	Gross (mmcf)	Net (mmcf)
Proved								
Proved Producing	371	315	101	72	2,180	1,788	4,909	3,790
Proved Non-Producing	42	38	18	12	106	84	2,250	1,910
Proved Undeveloped	0	0	0	0	419	335	348	251
Total Proved	413	353	119	84	2,705	2,207	7,507	5,951
Probable Additional	175	145	63	44	1,594	1,282	6,084	4,768
Total Proved Plus Probable	588	499	183	128	4,299	3,489	13,591	10,719

Note: Figures may not add due to rounding.

Net Present Value of Future Net Revenue

Reserves Category	Before Income Taxes					After Income Taxes				
	Discounted at (% per year)									
	0	5	10	15	20	0	5	10	15	20
Proved										
Proved Producing	78,425	67,396	59,563	53,638	48,959	70,150	60,789	54,048	48,909	44,829
Proved Non-Producing	12,887	10,303	8,588	7,345	6,395	8,729	6,839	5,601	4,715	4,044
Proved Undeveloped	5,665	4,925	4,307	3,786	3,343	3,717	3,112	2,626	2,229	1,899
Total Proved	96,977	82,624	72,457	64,769	58,697	82,596	70,740	62,276	55,853	50,773
Probable Additional	60,052	43,397	33,231	26,839	21,486	40,801	29,124	21,982	17,718	13,744
Total Proved Plus Probable	157,029	126,021	105,688	91,158	80,183	123,397	99,864	84,257	73,031	64,517

Note: Figures may not add due to rounding.

RESERVES AND NET PRESENT VALUE (CONSTANT PRICES AND COSTS)

The following tables summarize Rock's remaining oil and natural gas reserves along with the value of future net revenue utilizing GLJ's constant pricing and costs estimates. Pricing was based on benchmark reference prices posted at or near December 31, 2006 with adjustments for oil differential and natural gas heating values applied to arrive at a company average. Capital and operating costs were not inflated.

Reserves

Reserves Category	Oil		NGL		Heavy Oil		Natural Gas	
	Gross (mdbl)	Net (mdbl)	Gross (mdbl)	Net (mdbl)	Gross (mdbl)	Net (mdbl)	Gross (mmcf)	Net (mmcf)
Proved								
Proved Producing	375	319	101	71	2,180	1,790	4,928	3,804
Proved Non-Producing	42	38	18	12	106	84	2,238	1,939
Proved Undeveloped	0	0	0	0	419	335	348	254
Total Proved	417	357	119	84	2,705	2,209	7,514	5,996
Probable Additional	175	146	63	44	1,594	1,284	6,026	4,713
Total Proved Plus Probable	592	503	182	128	4,299	3,493	13,540	10,709

Note: Figures may not add due to rounding.

Net Present Value of Future Net Revenue

Reserves Category	Before Income Taxes					After Income Taxes				
	Discounted at (% per year)									
	0	5	10	15	20	0	5	10	15	20
Proved										
Proved Producing	72,077	62,251	55,181	49,783	45,492	65,890	57,307	51,063	46,266	42,436
Proved Non-Producing	9,858	8,027	6,739	5,775	5,024	6,657	5,297	4,353	3,657	3,122
Proved Undeveloped	5,131	4,447	3,875	3,393	2,983	3,365	2,796	2,340	1,968	1,659
Total Proved	87,067	74,726	65,795	58,951	53,500	75,912	65,400	57,757	51,891	47,218
Probable Additional	48,533	35,925	27,897	22,330	18,256	32,952	24,026	18,341	14,407	11,536
Total Proved Plus Probable	135,600	110,651	93,693	81,281	71,756	108,864	89,425	76,098	66,298	58,753

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 Constant Prices and Costs evaluation and the Forecast Prices and Costs evaluation.

Summary of Pricing and Cost Rate Assumptions at December 31, 2006 – Constant Prices and Costs

Edmonton Par Oil Price (Cdn\$/bbl)	AECO Gas Price (Cdn\$/mcf)	Edmonton Pentane (Cdn\$/bbl)	Edmonton Propane (Cdn\$/bbl)	Edmonton Butane (Cdn\$/bbl)	Spec Ethane (Cdn\$/bbl)	EXCHANGE RATE (US\$/Cdn\$)
67.58	6.07	71.55	43.25	54.06	20.43	0.8581

Summary of Pricing and Cost Rate Assumptions at December 31, 2006 – 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)	Medium 29° API (\$/bbl)	Hardisty Heavy 12° API (\$/bbl)	Edmonton Propane (\$/bbl)	Edmonton Butane (\$/bbl)	Edmonton Pentane (\$/bbl)	Ethane (\$/bbl)	AECO-C (\$/mcf)		
2007	62.00	70.25	61.25	39.25	45.00	56.25	71.75	24.25	7.20	0.87	2
2008	60.00	68.00	59.25	40.00	43.50	50.25	69.25	25.25	7.45	0.87	2
2009	58.00	65.75	57.25	39.75	42.00	48.75	67.00	26.25	7.75	0.87	2
2010	57.00	64.50	56.00	39.75	41.25	47.75	65.75	26.50	7.80	0.87	2
2011	57.00	64.50	56.00	40.25	41.25	47.75	65.75	26.50	7.85	0.87	2
2012	57.50	65.00	56.50	41.50	41.50	48.00	66.25	27.75	8.15	0.87	2
2013	58.50	66.25	57.75	42.50	42.50	49.00	67.50	28.25	8.30	0.87	2
2014	59.75	67.75	59.00	43.50	43.25	50.25	69.00	29.00	8.50	0.87	2
2015	61.00	69.00	60.00	44.25	44.25	51.00	70.50	29.50	8.70	0.87	2
2016	62.25	70.50	61.25	45.25	45.00	52.25	72.00	30.00	8.90	0.87	2
2017	63.50	71.75	62.50	46.00	46.00	53.00	73.25	30.75	9.10	0.87	2
2018+	+2%/yr	+2%/yr	+2%/yr	+2%/yr	+2%/yr	+2%/yr	+2%/yr	+2%/yr	+2%/yr	0.87	2

FINDING, DEVELOPMENT AND ACQUISITION COSTS

The following table summarizes Rock's finding, development and acquisition costs for the years ended December 31, 2006 and 2005 and the nine months ended 2004, including future development costs. Due to the change in the Company's year-end in 2004 only nine-month data is shown for finding and development costs for 2004, given the availability of independent reserve information for that period.

	12 months ended Dec. 31, 2006	12 months ended Dec. 31, 2005	9 months ended Dec. 31, 2004	Period Cumulative Total
Oil and Natural Gas Operations:				
Proved finding and development costs				
Capital expenditures ⁽¹⁾ (\$000)	\$32,907	\$22,912	\$5,876	\$61,695
Future capital costs (\$000)	2,939	962	1,174	5,075
Total capital (\$000)	\$35,846	\$23,874	\$7,050	\$66,877
Reserve additions ⁽²⁾ (mboe)	2,181	1,188	294	6,663
Proved finding and development costs (\$/boe)	\$16.44	\$20.10	\$23.98	\$18.23
Proved Plus Probable finding and development costs				
Capital expenditures ⁽¹⁾ (\$000)	\$32,907	\$22,912	\$5,876	\$61,695
Future capital costs (\$000)	7,986	3,900	\$3,051	\$14,937
Total capital (\$000)	\$40,893	\$26,812	\$8,927	\$76,739
Reserve additions ⁽²⁾ (mboe)	3,624	2,201	551	6,376
Proved Plus Probable finding and development costs (\$/boe)	\$11.28	\$12.18	\$16.20	\$12.02
Acquisitions/Dispositions:				
Proved finding and development costs – Acquisitions (Dispositions)				
Capital expenditures ⁽¹⁾ (\$000)	(\$30,878)	\$60,853	-	\$29,975
Future capital costs (\$000)	(2,400)	3,647	-	1,247
Total capital (\$000)	(\$33,278)	\$64,500	-	\$31,222
Reserve additions (mboe)	(1,042)	2,397	-	1,355
Proved finding and development costs (\$/boe)	(\$31.94)	\$26.91	-	\$23.04
Proved Plus Probable finding and development costs – Acquisitions (Dispositions)				
Capital expenditures ⁽¹⁾ (\$000)	(\$30,878)	\$60,853	-	\$29,975
Future capital costs (\$000)	(2,400)	3,733	-	1,333
Total capital (\$000)	(\$33,278)	\$64,586	-	\$31,308
Reserve additions (mboe)	(1,406)	3,154	-	
Proved + Probable finding and development costs (\$/boe)	(\$23.67)	\$20.48	-	\$17.91
Total Activities:				
Proved finding and development costs				
Capital expenditures ⁽¹⁾ (\$000)	\$2,029	\$83,765	\$5,876	\$91,670
Future capital costs (\$000)	539	4,609	1,174	6,322
Total capital (\$000)	\$2,568	\$88,374	\$7,050	\$98,099
Reserve additions ⁽³⁾ (mboe)	1,279	3,620	273	5,172
Total Proved finding and development costs (\$/boe)	\$2.01	\$24.41	\$25.82	\$18.95
Proved Plus Probable finding and development costs				
Capital expenditures ⁽¹⁾ (\$000)	\$2,029	\$83,765	\$5,876	\$91,670
Future capital costs (\$000)	5,586	7,633	3,051	16,270
Total capital (\$000)	\$7,615	\$91,398	\$8,927	\$108,047
Reserve additions ⁽³⁾ (mboe)	2,153	5,284	422	7,859
Total Proved Plus Probable finding and development costs (\$/boe)	\$3.54	\$17.30	\$21.15	\$13.73

⁽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.

Finding and development 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. Finding and development costs on operations improved in 2006 compared to 2005 and 2004 primarily as Rock's grassroots exploration and development program gained momentum. Capital costs on operations for 2005 and 2004 included a relatively high land and seismic component, 23 percent and 48 percent of expenditures respectively, which increased finding and development costs.

Rock's 2007 capital budget has approximately 25 percent of the spending allocated to land and seismic as the Company continues to build its grassroots program, particularly in the West Central Alberta core area. Finding and development costs on the acquired properties are based on the reserve evaluation as at December 31, 2005 and were increased by the amount of production from the closing date to December 31, 2005 to provide an estimate of the reserves purchased. Finding and development 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. Finding and development costs for total activities include operations, acquisitions, dispositions and reserve revisions.

LAND HOLDINGS

The following table summarizes Rock's land holdings as at December 31, 2006 and 2005:

(acres)		Dec. 31, 2006	Dec. 31, 2005	Change
Developed	– Gross	63,085	79,188	(20)%
	– Net	23,566	31,378	(25)%
Undeveloped	– Gross	76,030	79,666	(5)%
	– Net	39,429	36,898	7%
Total	– Gross	139,115	158,854	(12)%
	– Net	62,995	68,276	(8)%

NET ASSET VALUE

The following table summarizes Rock's net asset value and net asset value per share as at December 31, 2006 and December 31, 2005:

(\$000 except number of shares and net asset value per share)	December 31, 2006	December 31, 2005	Change
Proved plus probable reserves ⁽¹⁾	105,688	87,315	21%
Undeveloped land ⁽²⁾	8,220	8,448	(3)%
Seismic ⁽³⁾	3,550	2,617	36%
Working capital including debt	(12,580)	(24,442)	49%
Option proceeds	7,405	5,053	47%
Net Asset Value (Diluted)	112,283	78,991	42%
Diluted shares (000)	21,405	20,758	3%
Net asset value per share	\$5.25	\$3.81	38%

⁽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 2006 and 2005 forecast pricing and costs estimates and using a discount rate of 10 percent.

⁽²⁾ 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.

⁽³⁾ Seismic value is based on actual cost of seismic acquired or purchased.

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:

	2007	2008	2009	2010	2011
Office premise leases	\$ 676	\$ 895	\$ 828	\$ 828	\$ 828
Demand bank loan ⁽¹⁾	\$10,965				

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

OUTSTANDING SHARE DATA

At December 31, 2006 and to date, Rock had 19,637,321 common shares outstanding. At December 31, 2006 the Company had 1,767,277 stock options outstanding with an average exercise price of \$4.19 per share.

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 Chief Executive Officer and the Chief Financial Officer have evaluated the effectiveness of the disclosure controls and procedures as at December 31, 2006 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, 2006. 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

There has been no change in accounting policies since the Company's last fiscal year-end.

NEW ACCOUNTING PRONOUNCEMENTS

Comprehensive Income

The Canadian Institute of Chartered Accountants (CICA) issued CICA Handbook section 1530, Comprehensive Income. The section is effective for fiscal years beginning on or after October 1, 2006. It describes how to report and disclose comprehensive income and its components. An integral part of the accounting standards on recognition and measurement of financial instruments is the ability to present certain gains and losses outside net income, in other comprehensive income. This standard requires that a company present comprehensive income and its components in a financial statement displayed with the same prominence as other financial statements that constitute a complete set of financial statements, in both annual and interim financial statements.

The CICA also made changes to CICA Handbook section 3250, Surplus, and reissued it as section 3251, Equity. The section is also effective for fiscal years beginning on or after October 1, 2006. The changes in how to report and disclose equity and changes in equity are consistent with the new requirements of section 1530, Comprehensive Income.

Rock will adopt this section effective January 1, 2007 but the Company does not expect this section to have a material impact on its consolidated financial statements.

Financial Instruments – Recognition and Measurement

The CICA issued CICA Handbook section 3855, Financial Instruments – Recognition and Measurement. The section is effective for fiscal years beginning on or after October 1, 2006. It describes the standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. This section requires that all financial assets be measured at fair value, with some exceptions; all financial liabilities be measured at fair value if they are derivatives or classified as held for trading purposes (other financial liabilities are measured at their carrying value); and all derivative financial instruments be measured at fair value, even when they are part of a hedging relationship.

Rock will adopt this section effective January 1, 2007 but does not expect this section to have a material impact on its consolidated financial statements.

Hedges

The CICA issued CICA Handbook section 3865, Hedges. The section is effective for fiscal years beginning on or after October 1, 2006, and describes when and how hedge accounting can be used. Hedging is an activity used by a company to change an exposure to one or more risks by creating an offset between changes in the fair value of a hedged item and a hedging item; changes in the cash flows attributable to a hedged item and a hedging item; or changes resulting from a risk exposure relating to a hedged item and a hedging item. Hedge accounting ensures that all gains, losses, revenues and expenses from the derivative and the item it hedges are recorded in the income statement in the same period.

Rock will adopt this section effective January 1, 2007 but does not expect this section to have a material impact on its consolidated financial statements.

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 judgments 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 judgment 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. Judgments 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 were 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 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 high activity levels the industry has been experiencing, 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.

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 1800, 700 - 9th Avenue S.W., Calgary, Alberta, T2P 3V4.