rockenergy

TSX: RE

2009 Third Quarter Report

Q3 09

For the nine months ended September 30, 2009

CORPORATE SUMMARY

FINANCIAL	**Three months ended September 30, 2009**	Three months ended September 30, 2008	**Nine months ended September 30, 2009**	Nine months ended September 30, 2008
Oil and gas revenue (‘000)	**$12,124**	$24,432	**$35,428**	$64,530
Funds from operations (‘000) (1)	**$4,403**	$13,906	**$13,494**	$35,321
Per share – basic	**$0.17**	$0.54	**$0.52**	$1.36
– diluted	**$0.16**	$0.53	**$0.52**	$1.36
Net income (loss) (‘000)	**$(1,712)**	$(1,266)	**$(5,718)**	$3,974
Per share – basic	**$(0.07)**	$(0.05)	**$(0.22)**	$0.15
– diluted	**$(0.07)**	$(0.05)	**$(0.22)**	$0.15
Capital expenditures, net (‘000)	**$4,599**	$18,174	**$10,068**	$40,917

	As at September 30, 2009	As at September 30, 2008
Working capital deficiency including bank debt (‘000)	**$35,035**	$34,903
Common shares outstanding	**26,207,243**	25,899,843
Options outstanding	**1,626,682**	1,994,865

OPERATIONS	**Three months ended September 30, 2009**	Three months ended September 30, 2008	**Nine months ended September 30, 2009**	Nine months ended September 30, 2008
Average daily production				
Crude oil and natural gas liquids (bbls/d)	**1,763**	1,836	**1,788**	1,679
Natural gas (mcf/d)	**8,775**	10,141	**10,005**	9,483
Barrels of oil equivalent (boe/d)	**3,225**	3,526	**3,455**	3,260
Average product prices				
Crude oil and natural gas liquids ($/bbl)	**$59.20**	$96.94	**$49.38**	$87.81
Natural gas ($/mcf)	**$3.12**	$8.63	**$4.15**	$9.32
Barrels of oil equivalent ($/boe)	**$40.84**	$75.27	**$37.55**	$72.17
Field netback ($/boe)	**$18.38**	$46.17	**$17.59**	$43.47

Note (1) Funds from operations and funds from operations per share are non GAAP terms that represent cash generated from operating activities before changes in non-cash working capital and asset retirement expenditures. We consider it a key measure as it demonstrates our ability to generate the cash necessary to fund future growth through capital investment. Funds from operations may not be comparable with the calculation of similar measures for other companies. Funds from operations per share is calculated using the same share basis which is used in the determination of net income (loss) per share.

PRESIDENT'S MESSAGE

During the third quarter of 2009 Rock generated solid operating and financial results primarily from its heavy oil operations. The quarter was highlighted by the following achievements:

- Daily production averaged 3,225 boe per day (46% heavy oil, 9% light oil and natural gas liquids, and 45% gas);
- Funds from operations for the quarter of $4.4 million ($0.17/share); and
- Drilled 8 (8.0 net) heavy oil wells with 100% success.

2009 Drilling	1st Quarter (Actual)	2nd Quarter (Actual)	3rd Quarter (Actual)	Balance 2009 (Forecast)	**Total**
Heavy oil	-	4 (4.0 net)	8 (8.0 net)	8 (8.0 net)	20 (20.0 net)
Natural gas	2 (1.3 net)	-	-	3 (1.2 net)	5 (2.5 net)
Dry and abandoned wells	-	-	-	-	-
Total wells	2 (1.3 net)	4 (4.0 net)	8 (8.0 net)	11 (9.2 net)	25 (22.5 net)

Rock's daily production for the third quarter of 2009 averaged 3,225 boe per day (55% crude oil), and is currently estimated to be 3,400 boe per day. The company is completing the drilling of the remaining heavy oil wells in the Plains region, and expects daily production to reach 3,500-3,600 boe by year end.

Financially, Rock generated funds from operations of $4.4 million ($0.17 per basic share) in the third quarter of 2009. Rock's realized price in the third quarter of 2009 was $40.84 per boe compared to $38.37 per boe in the second quarter of this year. The main reason for the increase in price realizations can be attributed to the increase in oil prices combined with the significant decrease in heavy oil differentials. These positive price movements more than offset the decline in gas prices. Rock generated a funds flow per boe of $14.66 compared to $17.15 per boe in the previous quarter. The reduction in funds flow can be mainly attributed to an increase in our heavy oil operating costs as we reactivated some suspended wells, and experienced a higher level of well servicing activity. Net capital expenditures for the third quarter were $4.6 million and total net debt at the end of the period was $35.0 million (against total bank credit lines of $47 million). On October 29, 2009 Rock closed on a bought deal financing for net proceeds of $14.1 million. These funds were used to reduce the Company's total indebtedness to approximately $20.5 million currently.

During the last 5 years Rock has developed an inventory of over 150 drilling opportunities which are balanced between oil, conventional gas, and resource gas plays. With the proceeds from our recent equity financing, and the projected cash flows from our properties, Rock's Board of Directors have approved a capital budget of $43 million for 2010. This capital program will provide significant growth in our daily production while confirming our Elmworth resource play by focusing on the following:

Drill 30 heavy oil wells	These wells pay out in less than a year at current prices, and contribute significantly to the company's cash flow.
Drill 10 conventional gas wells	These wells add to our high liquid content gas production at Saxon/Kaybob area and continue to exploit our vertical play concepts in our West Central core area.
Drill one vertical and 3-4 horizontal wells in Elmworth	This program will first test the Montney and Nikanassin productivity with a vertical well and then follow up with horizontal wells completed with multistage frac techniques later in the year to begin exploitation of the reserves.

Rock is forecasting production to average 3,800 – 4,000 boe per day in 2010, and to exit the year at 4,400-4,600 boe per day (over 25% growth). Assuming oil averages $75.00 WTI US/bbl, and gas at AECO averages $5.75 CDN/mcf with an exchange rate of $0.95 US$/Cdn$ the Company will generate cash flow of $33 million ($1.08/share) and have year-end 2010 net debt of $34 million.

2010 is shaping up to be a very exciting year for Rock. We have a solid inventory of 80-90 heavy oil drilling locations that can add significant production and cash flow for the organization. We also have 70-80 vertical gas drilling locations identified on our lands that we can begin exploiting. In addition, the Company has assembled a large land position in the Elmworth area that is at the forefront of an emerging resource play that could significantly transform our company and set up growth for 2011 and beyond. The Company is in a strong financial position with a foundation of funds flow and excess debt capacity to execute on our 2010 capital program and with the recent increase in our stock price, Rock is now well positioned to pursue complimentary acquisitions and mergers to potentially add another significant core area of operations to our strong portfolio of opportunities.

On behalf of the Board of Directors,

(signed) "Allen J. Bey"
November 12, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

Rock Energy Inc. ("Rock" or the "Company") is a public energy company engaged in the exploration for and development and production of crude oil and natural gas in Western Canada. Rock's corporate strategy is to continue to grow and develop an oil and gas exploration and production company through internal operations and acquisitions.

Rock evaluates its performance based on net income, field 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. Field netback is a benchmark used in the oil and 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 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 gas industry for resources, both 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 control both operating and administrative cost structures. Rock also seeks to obtain the best commodity price available based on the quality of our produced commodities.

The following discussion and analysis is dated November 12, 2009 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 for the year ended December 31, 2008. The discussion provided herein is incremental to that included in management's discussion and analysis in respect of its audited consolidated financial statements for the year ended December 31, 2008.

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 capital expenditures. Funds from operations is calculated by taking cash provided by operations from the consolidated statement of cash flows and adding back changes in non-cash working capital and asset retirement expenditures. Funds from operations per share is calculated using the same share basis which is used in the determination of net income (loss) 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 or other measures of financial performance calculated in accordance with GAAP. The reconciliation between cash provided by and funds from operations for the three months and nine months ended September 30, 2009 and 2008 is presented in the table below.

($ thousands)	3 Months Ended 09/30/09	3 Months Ended 09/30/08	9 Months Ended 09/30/09	9 Months Ended 09/30/08
Cash provided by operations	$2,505	$17,382	$8,459	$35,329
Add (deduct):				
Changes in non-cash working capital	1,844	(3,476)	4,981	(98)
Asset retirement expenditures	54	-	54	90
Funds from operations	$4,403	$13,906	$13,494	$35,321

All barrels of oil equivalent ('boe") conversions in this report are derived by converting natural gas to crude oil in the ratio of six thousand cubic feet ("mcf") of natural gas to one barrel ("bbl") of crude oil. Certain financial values are presented on a boe basis and such measurements may not be consistent with those used by other companies. Boes may be misleading, particularly if used in isolation. A boe conversion ratio of six mcf to one barrel is based on an energy equivalency conversion method primarily applicable at the burner tip and does not 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 future plans and operations, production, reserves, revenue, commodity prices, operating and administrative expenditures, 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 that may cause actual results or events to differ materially from those anticipated in the 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 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.

Outlook

2009 Update

Rock issued guidance on August 12, 2009 for projected 2009 results. The Company is updating its guidance at this time primarily to reflect the issuance of 4.35 million shares on October 29, 2009 at $3.50 per share for net proceeds of approximately $14 million. The table below provides Rock's previous and current guidance.

	August 12, 2009 Guidance	November 12, 2009 Guidance	Change
2009 Production (boe/d)			
Annual	3,300 – 3,500	3,300 – 3,500	0%
Exit	3,400 – 3,600	3,400 – 3,600	0%
2009 Funds from operations			
Annual - $	$19.3 million	$19.6 million	2%
Annual - $ per basic share	$0.75	$0.73	(3)%
2009 Capital budget			
Expenditures	$19 million	$19 million	0%
Wells drilled	23-25	23-25	0%
Total year end net debt	$38 million	$24 million	(37)%
Pricing	(July to Dec)	(Oct to Dec)	
Crude oil – WTI	US$67.50/bbl	US$75.00/bbl	
Natural gas – AECO	$3.75/mcf	$4.25/mcf	
US$/Cdn$ exchange rate	$0.92	$0.96	

2010 Guidance

The table below provides Rock's preliminary guidance for 2010. With proceeds from our recent equity financing and our inventory of opportunities we have prepared a budget based on capital expenditures that are in excess of funds from operations. However; we plan to maintain a balance sheet that has debt to annualized quarterly funds from operations ratio of approximately 1:5:1.0. Our capital budget has been designed taking into account the need for winter access operations at Saxon in our West Central core area during the first quarter and heavy oil operations in the Plains core area during the first and third quarters. We are well positioned to monitor commodity prices and resulting funds flows and adjust our capital budget accordingly. Rock expects to drill 14 (5.7 net) natural gas wells in the West Central core area and approximately 30 (30.0 net) heavy oil wells in the Plains core area.

Crude oil prices have been forecasted to be the same as the fourth quarter of 2009 and natural gas prices have been forecasted to improve from an AECO price of $4.25 per mcf during the fourth quarter of 2009 to an average AECO price in 2010 of $5.75 per mcf. As a result of increased pricing, royalty rates have been increased to approximately 21%. Operating costs are forecasted at approximately $14.00/boe while G&A costs are expected to be approximately $2.50/boe. Despite a planned increase in debt levels throughout 2010, interest costs on both an absolute and per boe basis are anticipated to be comparable to 2009.

The planned activities and assumptions outlined above result in a $43 million capital budget from which we are projecting 2010 annual production to increase by approximately 500 boe/d or approximately 15% over average 2009 levels. Funds from operations of $33 million ($1.08 per basic share) are projected to increase by approximately 70% from 2009 levels due to overall higher commodity prices and production levels. Year end net debt levels are projected to increase to $34 million with a debt to annualized fourth quarter funds from operations ratio of 0.9:1 by the end of 2010. The table below provides our 2010 guidance.

	November 12, 2009 Guidance
2010 Production (boe/d)	
Annual	3,800 – 4,000
Exit	4,400 – 4,600
2010 Funds from operations	
Annual - $	$33 million
Annual - $ per basic share	$1.08
2010 Capital budget	
Expenditures	$43 million
Wells drilled	40 - 45
Total year end net debt	$34 million
Pricing (annual)	
Crude oil – WTI	US$75.00/bbl
Natural gas – AECO	$5.75/mcf
US$/Cdn$ exchange rate	$0.95

Production

Production by Product	3 Months Ended 09/30/09	3 Months Ended 09/30/08	Quarterly Change	9 Months Ended 09/30/09	9 Months Ended 09/30/08	Change
Natural gas (mcf/d)	8,775	10,141	(13)%	10,005	9,483	6%
Light oil (bbl/d)	121	171	(29)%	132	201	(34)%
Heavy oil (bbl/d)	1,468	1,393	5%	1,444	1,259	15%
Natural gas liquids (bbl/d)	174	272	(36)%	212	219	(3)%
boe/d (6:1)	3,225	3,526	(9)%	3,455	3,260	6%

Production for the nine months ended September 30, 2009 has increased 6% over the same period last year primarily due to increased heavy oil production. Gas production for the three months ended September 30, 2009 has decreased over the same period last year due to normal production declines as drilling activity was reduced due to low natural gas prices. With improved natural gas prices, the Company anticipates drilling 3 natural gas wells during the fourth quarter of 2009. Rock currently anticipates drilling an additional 8 heavy oil wells in the fourth quarter of 2009. Production growth for the rest of the year is expected to come from the 20 well heavy oil drilling program that commenced in June 2009.

Product Prices

Realized Product Prices	3 Months Ended 09/30/09	3 Months Ended 09/30/08	Quarterly Change	9 Months Ended 09/30/09	9 Months Ended 09/30/08	Change
Natural gas ($/mcf)	3.12	8.63	(64)%	4.15	9.32	(55)%
Light oil ($/bbl)	71.27	115.38	(38)%	56.57	106.75	(47)%
Heavy oil ($/bbl)	59.26	96.26	(38)%	50.08	84.46	(41)%
Natural gas liquids ($/bbl)	50.28	88.61	(43)%	40.06	87.10	(54)%
boe (6:1)	$40.84	$75.27	(46)%	$37.55	$72.17	(48)%
Average Benchmark Prices						
Natural gas – Henry Hub Daily Spot (US$/mcf)	3.16	9.00	(65)%	3.81	9.68	(61)%
Natural gas – AECO C Daily Spot ($/mcf)	2.94	7.73	(62)%	3.78	8.64	(56)%
Oil – WTI Cushing (US$/bbl)	68.30	117.98	(42)%	57.01	113.29	(50)%
Oil – Edmonton light ($/bbl)	71.54	121.85	(41)%	62.36	115.14	(46)%
Heavy oil – Western Canadian Select (“WCS”) ($/bbl)	63.75	103.87	(39)%	55.67	94.63	(41)%
US$/Cdn$ exchange rate	0.911	0.960	(5)%	0.857	0.982	(13)%

Commodity prices were significantly lower during the third quarter of 2009 over the prior year. However, crude oil prices have recovered from the lows set in the late fall of 2008. Heavy oil prices have not only benefited from rising WTI prices since the first quarter of 2009, but also a significant narrowing of the heavy oil price differential. Corporate heavy oil prices in the third quarter of 2009 were $59.26 per barrel as differentials relative to Edmonton light par price were only 17% in the third quarter of 2009 compared to 21% in the third quarter of 2008. The futures market indicates that WTI prices should remain around US$75.00 per barrel for the rest of the year. Natural gas prices have continued to fall from the first quarter 2009 due to continued weakness in industrial demand and high inventory levels. Rock has not hedged any of its commodity prices on production at this point in time.

Revenue

	3 Months Ended 09/30/09	3 Months Ended 09/30/08	Quarterly Change	9 Months Ended 09/30/09	9 Months Ended 09/30/08	Change
Crude oil and natural gas revenue	$12,124	$24,432	(50)%	$35,428	$64,530	(45)%

Despite a 6% increase in production levels for the nine months ended September 30, 2009 a significant reduction in commodity prices resulted in a 45% decrease to crude oil and natural gas revenue. Similarly for the three months ended September 30, 2009 crude oil and natural gas revenue was significantly impacted by lower commodity prices.

Royalties

	3 Months Ended 09/30/09	3 Months Ended 09/30/08	Quarterly Change	9 Months Ended 09/30/09	9 Months Ended 09/30/08	Change
Royalties	$2,363	$5,196	(55)%	$6,541	$13,728	(52)%
As % of crude oil and natural gas revenue	19.5%	21.3%		18.5%	21.3%	
Per boe (6:1)	$7.96	$16.02	(50)%	$6.93	$15.37	(55)%

Royalties for the periods ended September 30, 2009 are lower on an absolute, percentage and per boe basis in comparison to the same periods of 2008. This is primarily a result of significantly reduced commodity prices. Based on our projected product prices for the remainder of 2009 royalty rates are forecast at approximately 20% of crude oil and natural gas revenue.

Operating Expense

	3 Months Ended 09/30/09	3 Months Ended 09/30/08	Quarterly Change	9 Months Ended 09/30/09	9 Months Ended 09/30/08	Change
Operating expense	$4,130	$4,018	3%	$11,729	$11,248	4%
Transportation costs	$171	$225	(24)%	$565	$654	(14)%
	$4,301	$4,243	1%	$12,294	$11,902	3%
Per boe (6:1)	$14.50	$13.08	11%	$13.03	$13.33	(2)%

Although operating expenses remained relatively unchanged on an absolute basis they increased 11% on a per boe basis in the third quarter of 2009 over the same period in 2008. With improved crude oil commodity prices in the third quarter of 2009 Rock undertook additional workover initiatives which contributed to an increase in the operating expenses relative to the first and second quarters of 2009. These initiatives added approximately $0.8 million (or $2.66 per boe) of operating costs during the third quarter of 2009. Heavy oil operating costs were $15.77 per barrel for the nine months ended September 30, 2009. Overall operating costs per boe for the nine months ended September 30, 2009 are 2% below the prior period. Operating costs are expected to increase slightly for the balance of 2009 but are anticipated to remain below $13.50 per boe on an annualized basis.

General and Administrative (G&A) Expense

G&A Expense	3 Months Ended 09/30/09	3 Months Ended 09/30/08	Quarterly Change	9 Months Ended 09/30/09	9 Months Ended 09/30/08	Change
Gross	$1,116	$1,056	6%	$3,302	$3,437	(4)%
Per boe (6:1)	$3.76	$3.26	16%	$3.50	$3.85	(9)%
Capitalized	$370	$369	0%	$1,122	$1,192	(6)%
Per boe (6:1)	$1.25	$1.14	10%	$1.19	$1.33	(11)%
Net	$746	$687	9%	$2,180	$2,245	(3)%
Per boe (6:1)	$2.51	$2.12	19%	$2.31	$2.51	(8)%

On an absolute dollar basis G&A expenses for the three and nine months ended September 30, 2009 are comparable to the same periods in 2008. For the three months ended September 30, 2009 G&A expenses have increased on a per boe basis over 2008 largely due to lower production levels. The Company capitalizes certain G&A expenses based on personnel involved in exploration and development activities, including certain salaries and related overhead costs. G&A expenses for the remainder of the year are expected to increase on both an absolute and per boe basis as staffing levels return to normal and planned activity levels increase.

Interest Expense

	3 Months Ended 09/30/09	3 Months Ended 09/30/08	Quarterly Change	9 Months Ended 09/30/09	9 Months Ended 09/30/08	Change
Interest expense	$283	$385	(26)%	$818	$1,234	(34)%
Per boe (6:1)	$0.95	$1.19	(20)%	$0.87	$1.38	(37)%

Interest incurred is as a result of bank borrowings. Interest expense has decreased in the third quarter and the first nine months of 2009 compared to the same periods in 2008 due to significantly lower interest rates with comparable debt levels. The average effective interest rate for first nine months of 2009 was approximately 3.0% compared to 5.7% for the same period in 2008.

Stock-Based Compensation

	3 Months Ended 09/30/09	3 Months Ended 09/30/08	Quarterly Change	9 Months Ended 09/30/09	9 Months Ended 09/30/08	Change
Charge for period	$162	$312	(48)%	$975	$919	6%
Per boe (6:1)	$0.55	$0.96	(43)%	$1.03	$1.03	0%

Stock-based compensation costs are non-cash charges which reflect the estimated value of stock options issued to directors and employees of Rock. The value of the award is recognized as an expense over the period from the grant date to the date of vesting of the award.

Depletion, Depreciation and Accretion (DD&A)

	3 Months Ended 09/30/09	3 Months Ended 09/30/08	Quarterly Change	9 Months Ended 09/30/09	9 Months Ended 09/30/08	Change
D&D expense	$6,432	$7,050	(9)%	$20,618	$20,115	3%
Accretion expense	$65	$66	(2)%	$195	$189	3%
D D &A	$6,497	$7,116	(9)%	$20,813	$20,304	3%
Per boe (6:1)	$21.90	$21.93	0%	$22.06	$22.73	(3)%

The depletion and depreciation expense for the three months ended September 30, 2009 is lower than the same period in 2008 on an absolute basis but is comparable on a boe basis. On a year to date basis the depletion and depreciation expense on both an absolute basis and on a per boe basis are comparable.

Accretion represents the change in the time value of the asset retirement obligation ("ARO"). The underlying ARO may increase over a period based on new obligations incurred from drilling wells or constructing facilities. Similarly this obligation can be reduced as a result of abandonment work undertaken and reducing future obligations.

Taxes

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 2009 as the Company and its subsidiaries had estimated resource tax pools available at December 31, 2008 of $114.7 million.

Funds from Operations and Net Income (loss)

	3 Months Ended 09/30/09	3 Months Ended 09/30/08	Quarterly Change	9 Months Ended 09/30/09	9 Months Ended 09/30/08	Change
Funds from operations	$4,403	$13,906	(69)%	$13,494	$35,321	(62)%
Per boe (6:1)	$14.84	$42.87	(65)%	$14.31	$39.54	(64)%
Per share - basic	$0.17	$0.54	(69)%	$0.52	$1.36	(63)%
- diluted	$0.16	$0.53	(70)%	$0.52	$1.36	(61)%
Net Income (loss)	$(1,712)	$(1,266)	35%	$(5,718)	$3,974	(244)%
Per boe (6:1)	$(5.77)	$(3.90)	48%	$(6.06)	$4.45	(237)%
Per share - basic	$(0.07)	$(0.05)	40%	$(0.22)	$0.15	(247)%
- diluted	$(0.07)	$(0.05)	40%	$(0.22)	$0.15	(247)%
Weighted average shares outstanding						
- basic	26,207,243	25,885,943	1%	26,089,340	25,880,429	1%
- diluted	26,696,120	26,154,943	2%	26,095,646	26,006,694	0%

Funds from operations for the three and nine month periods ended September 30, 2009 decreased over the prior year periods due to significantly reduced commodity prices. The decrease was partially offset by lower royalties and interest expense. The low commodity prices also contributed to the net loss for the three and nine months ended September 30, 2009. Basic shares outstanding increased 1% over the 2008 periods primarily due to a private placement in April 2009.

Capital Expenditures

	3 Months Ended 09/30/09	3 Months Ended 09/30/08	Quarterly Change	9 Months Ended 09/30/09	9 Months Ended 09/30/08	Change
Land	$454	$2,955	(85)%	$836	$4,801	(83)%
Seismic	232	522	(56)%	698	1,127	(38)%
Drilling, completion & equipment	4,314	12,743	(66)%	8,521	20,774	(59)%
Facilities	123	1,689	(93)%	347	14,184	(98)%
Capitalized G&A	370	369	0%	1,122	1,192	(6)%
Office equipment	4	45	(91)%	12	82	(85)%
	5,497	18,323	(70)%	11,536	42,160	(73)%
Drilling incentive credits	(898)	-	-	(1,468)	-	-
	4,599	18,323	(75)%	10,068	42,160	(76)%
Property dispositions	-	(149)	-	-	(1,243)	-
Total net capital expenditures	$4,599	$18,174	(75)%	$10,068	$40,917	(75)%

Spending in the third quarter and first nine months of 2009 was significantly lower than the same periods in 2008 due to reduced drilling activity and from minimal facilities construction activity in 2009. The Company has recorded $1.5 million of drilling incentive credits for the nine months ended September 30, 2009. In the Plains core area Rock drilled 8 (8.0 net) heavy oil wells in the third quarter of 2009 with 100% success. These wells are part of a 20 (20.0 net) well heavy oil program for 2009. In the West Central core area Rock drilled 2 (1.3 net) natural gas wells at Saxon and Elmworth in the first quarter of 2009. Rock's capital budget for 2009 was expanded in August 2009 to $19 million which now includes drilling approximately 25 (22.5 net) wells.

Liquidity and Capital Resources

Rock currently projects a self financed capital expenditure program for 2009 at approximately $19 million against anticipated funds from operations of $19.6 million. The Company has a net debt position of $35.0 million including a positive working capital position of $2.5 million at September 30, 2009. The Company's total debt to third quarter 2009 annualized funds from operations ratio was 2.0 to 1. This ratio has continued to fall from 2.4 to 1 for the first quarter of 2009 primarily due to improved crude oil pricing. After applying proceeds from the recent equity financing the Company expects to have a net debt position of approximately $24 million by the end of 2009 with a debt to fourth quarter 2009 annualized funds from operations ratio of 1.0 to 1. The Company will continue to monitor capital, debt and cash levels and make adjustments in order to maintain an appropriate debt to funds from operations level.

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 gas assets. The facility bears interest at the bank's prime rate or at prevailing banker's 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. A review was completed in October 2009 that established the available facility at $47 million. The review for the facility is scheduled to be completed by April 1, 2010.

Subsequent to the quarter ended September 30, 2009 Rock closed an equity financing of 4,350,000 common shares at a price of $3.50 per share for total proceeds of $15.2 million (net proceeds of $14.1 million). The net proceeds were used to reduce the Company's bank credit facilities and provide capacity for its ongoing capital expenditure program and for general corporate purposes.

Selected Quarterly Data

The following table provides selected quarterly information for Rock.

	3 Months Ended 09/30/09 (unaudited)	3 Months Ended 06/30/09 (unaudited)	3 Months Ended 03/31/09 (unaudited)	3 Months Ended 12/31/08 (unaudited)	3 Months Ended 09/30/08 (unaudited)	3 Months Ended 06/30/08 (unaudited)	3 Months Ended 03/31/08 (unaudited)	3 Months Ended 12/31/07 (unaudited)
Production (boe/d)	3,225	3,329	3,818	3,959	3,526	3,454	2,798	2,672
Oil and gas revenues	$12,124	$11,621	$11,683	$15,746	$24,432	$24,774	$15,324	$11,136
Price realizations ($/boe)	$40.84	$38.37	$33.99	$43.23	$75.27	$78.82	$60.18	$45.30
Royalties ($/boe)	$7.96	$5.16	$7.61	$9.24	$16.02	$16.53	$13.11	$8.21
Operating expense ($/boe)	$14.50	$12.40	$12.33	$14.99	$13.08	$14.26	$12.48	$12.28
Field netback ($/boe)	$18.38	$20.81	$14.05	$19.00	$46.17	$48.03	$34.59	$24.81
G&A expense ($/boe)	$2.51	$2.58	$1.90	$2.72	$2.12	$2.43	$3.11	$3.88
Funds from operations (i)	$4,403	$5,195	$3,896	$5,520	$13,906	$13,807	$7,608	$4,735
Per share - basic	$0.17	$0.20	$0.15	$0.21	$0.54	$0.53	$0.29	$0.18
- diluted	$0.16	$0.20	$0.15	$0.21	$0.53	$0.53	$0.29	$0.18
Net income (loss)	$(1,712)	$(1,745)	$(2,261)	$(2,083)	$(1,266)	$4,020	$1,220	$290
Per share - basic	$(0.07)	$(0.07)	$(0.09)	$(0.08)	$(0.05)	$0.16	$0.05	$0.01
- diluted	$(0.07)	$(0.07)	$(0.09)	$(0.08)	$(0.05)	$0.15	$0.05	$0.01
Capital expenditures	$4,599	$2,095	$3,374	$9,256	$18,174	$7,439	$16,398	$7,488
	As at 09/30/09	As at 06/30/09	As at 03/31/09	As at 12/31/08	As at 09/30/08	As at 06/30/08	As at 03/31/08	As at 12/31/07
Working capital deficiency (ii)	$35,036	$34,777	$38,100	$38,622	$34,903	$30,528	$37,933	$29,072

(i) Funds from operations is calculated as cash generated from operating activates before changes in non-cash working capital and asset retirement expenditures.
(ii) Working capital deficiency is calculated as current assets less current liabilities including bank debt.

Crude oil and natural gas production increased steadily from the fourth quarter of 2007 to the fourth quarter of 2008 from a combination of the Greenbank acquisition at the end of the third quarter of 2007, growth in the West Central Alberta area and increased heavy oil production in the Plains area. Thereafter, crude oil and natural gas production has decreased since the fourth quarter of 2008 due to normal production declines as drilling activity was reduced due to low commodity prices. Royalties per boe have remained fairly consistent at approximately 21 percent with the exception of the second quarter of 2009 which included a benefit and related reduction in gas crown royalties for facility expenditures made in West Central Alberta in 2008. Higher commodity prices during 2008 contributed to operating cost pressures particularly for trucking, fuel and well servicing costs. During the first half of 2009 a focus on operating expense reductions contributed to a lower operating expense of $12.40 per boe in the second quarter of 2009 and $12.33 per boe in the first quarter of 2009. Third quarter 2009 operating expenses of $14.50 are up due to workover costs initiated by the company as heavy oil prices improved. Although G&A expenses have remained relatively consistent on an absolute basis since the third quarter of 2007 per unit costs have decreased as production has increased. Funds from operations have varied primarily due to changes in commodity price levels particularly in the first nine months of 2009 and the fourth quarter of 2008. Net income has improved over the first three quarters of 2009 based on an increase in heavy oil pricing. A goodwill write down of $5.7 million was taken in the third quarter of 2008. Management decided to reduce capital expenditures in the first and second quarters of 2009 from the prior quarters in 2008 and 2007 primarily due to an uncertain commodity price environment. For the third quarter in 2009 capital expenditures increased as the Company initiated an expanded heavy oil program due to an improvement in heavy oil differentials and the introduction of the Alberta royalty incentive program.

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 leased premises.

Obligations with a fixed term for the remainder of 2009 and the next five years are as follows:

	2009	2010	2011	2012
Office lease premises	$207	$828	$828	$552
Processing agreements	$90	$288	$238	$159
Flow through obligation	$219			

Outstanding Share Data

At the date of this report there are 30,557,243 common shares outstanding and 1,625,582 options to purchase common shares outstanding.

Disclosure Controls and Procedures and Internal Controls over Financial Reporting

Management reported on its disclosure controls and procedures and the design of its internal controls over financial reporting in the year end 2008 MD&A. There has been no material change to the Company's disclosure controls or procedures or to the design of internal controls over financial reporting since that time

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 gas 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 existing 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 US/Canadian 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.

Recent market events and conditions, including disruptions in the international credit markets and other financial systems and the deterioration of global economic conditions, have caused significant volatility to commodity prices. These conditions worsened in 2008 and are continuing in 2009, causing a loss of confidence in the broader U.S. and global credit and financial markets and resulting in the collapse of, and government intervention in, major banks, financial institutions and insurers and creating a climate of greater volatility, less liquidity, widening of credit spreads, a lack of price transparency, increased credit losses and tighter credit conditions. Notwithstanding various actions by governments, concerns about the general condition of the capital markets, financial instruments, banks, investment banks, insurers and other financial institutions caused the broader credit markets to deteriorate and stock markets to decline substantially. However, in recent months these concerns are starting to moderate. These factors have negatively impacted company valuations and will impact the performance of the global economy going forward.

Petroleum prices are expected to remain volatile for the near future as a result of market uncertainties over the supply and the demand of these commodities due to the current state of the world economies, OPEC actions and the ongoing credit and liquidity concerns. Volatile oil and natural gas prices make it difficult to estimate the value of producing properties for acquisition and often cause disruption in the market for oil and natural gas producing properties, as buyers and sellers have difficulty agreeing on such value. Price volatility also makes it difficult to budget for and project the return on acquisitions and development and exploitation projects.

In addition, bank borrowings available to the Company may, in part, be determined by the Company's borrowing base. A sustained material decline in prices from historical average prices could reduce the Company's borrowing base, therefore reducing the bank credit available to the Company which could require that a portion, or all, of the Company's bank debt be repaid. In the current economic climate, including the recent deterioration in commodity prices, the Company's ability to access both credit and equity markets may be compromised or prohibited as many credit lenders and equity investors are restricting funds available to companies like Rock and as a result, Rock may have to alter its future spending plans.

Environmental Regulation and Risk

All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of federal, provincial and local laws and regulations. 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. Compliance with such legislation can require significant expenditures and a breach may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. In 2002, the Government of Canada ratified the Kyoto Protocol (the "Protocol"), which calls for Canada to reduce its greenhouse gas emissions to 6 percent below 1990 emission levels. The Federal government has introduced legislation aimed at reducing greenhouse gas emissions using a "intensity based" approach, the specifics of which have yet to be determined. Bill C-288, which is intended to ensure that Canada meets its global climate change obligations under the Kyoto Protocol, was passed by the House of Commons on February 14, 2007. There has been much public debate with respect to Canada's ability to meet these targets and the Federal government's strategy or alternative strategies with respect to climate change and the control of greenhouse gases. Implementation of strategies for reducing greenhouse gases whether to meet the limits required by the Protocol or as otherwise determined could have a material impact on the nature of oil and natural gas operations, including those of the Company.

There were no changes to environmental regulations and risks during the third quarter 2009, from those outlined in the MD&A of the Company as at December 31, 2008 which has been filed on SEDAR at www.sedar.com.

Given the evolving nature of the debate related to climate change and the control of greenhouse gases and resulting requirements, it is not possible to predict the impact of those requirements on the Company and its operations and financial condition.

International Financial Reporting Standards

In February 2008, the CICA accounting Standards Board confirmed the changeover to IFRS from Canadian GAAP will be required for publicly accountable enterprise interim and annual financial statements effective for fiscal years beginning on or after January 1, 2011. The eventual changeover to IFRS represents a change due to new accounting standards. The transition from current Canadian GAAP to IFRS is a significant undertaking that may materially affect the Company's reported financial position and results of operations.

The International Accounting Standards Board ("IASB") has approved amendments and exemptions to IFRS 1 in order to make it more useful to Canadian entities adopting IFRS for the first time. One such exemption relating to full cost oil and gas accounting reduces the administrative burden in the transition from the current Canadian Accounting Guideline 16 to IFRS. The amendment will permit the Company to apply IFRS prospectively to their full cost pool, rather than the retrospective assessment of capitalized exploration and development expenses, with the proviso that a ceiling test, under IFRS standards, be conducted at the transition date.

The Company has completed a high-level IFRS transition plan and has performed a preliminary review of the accounting policies of the Company under Canadian GAAP and compared them to IFRS. As at September 30, 2009, the Company had begun the next phase of the project, conducting an in-depth review of the significant areas of difference identified during the preliminary assessment in order to identify all specific Canadian GAAP and IFRS differences. Key areas addressed are also being reviewed to determine any information technology issues and the impact on internal controls over financial reporting. As of the date of this report, the quantitative impact of the changes has not been determined. Staff training programs commenced in 2009 and will be ongoing as the project unfolds. The Company will also continue to monitor standards development as issues by the IASB and AcSB as well as regulatory developments as issued by the Canadian Securities Administrators, which may affect the timing, nature or disclosure of its adoptions of IFRS. Additional disclosures of the key elements of the transition plan and progress of the project will be provided as the information becomes available.

Pending Accounting Changes

In January 2009, the CICA issued new standards for Business Combinations. This standard is effective January 1, 2011 and applies prospectively to business combinations for which the acquisition date is on or after the first annual reporting period beginning on or after January 1, 2011 for the Company. Early adoption is permitted. This standard replaces, Business Combination and harmonizes the Canadian standards with IFRS. This standard was amended to require additional use of fair value measurements, recognition of additional assets and liabilities, and increased disclosure. Adopting this standard is expected to have a significant impact on the way the Company accounts for future business combinations.

In May 2009, the CICA issued amendments to Handbook Section 3862 – "Financial Instruments – Disclosures," to include additional disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosures. These amendments outline a hierarchy of methods used to determine the fair value of financial instruments at the balance sheet date. Level 1 inputs are based on quoted prices in active markets that can be accessed at the measurement date. Level 2 inputs are based on quoted prices in the markets that are not active or based on prices that are observable for the asset or liability. Level 3 inputs are based on unobservable inputs for the asset or liability. These additional disclosures are effective December 31, 2009.

ROCK ENERGY INC.

Interim Consolidated Balance Sheets

September 30, 2009 and December 31, 2008
(unaudited)

(all amounts in $'000)	**September 30, 2009**	December 31, 2008
Assets		
Current Assets		
Accounts receivable	**$7,461**	$11,896
Prepaid expenses and deposits	**1,568**	908
	9,029	12,804
Property, plant and equipment (note 2)	**127,483**	137,706
	$136,512	$150,510
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable and accrued liabilities	**$6,543**	$17,251
Bank debt (note 6)	**37,521**	34,175
	44,064	51,426
Future tax liability	**2,990**	5,565
Asset retirement obligation (note 7)	**4,965**	4,497
Shareholders' Equity		
Share capital (note 4)	**81,830**	81,600
Contributed surplus (note 4)	**4,417**	3,458
Retained earnings (deficit)	**(1,754)**	3,964
	84,493	89,022
	$136,512	$150,510

Commitments (note 9)
Subsequent Event (note 11)
See accompanying notes to unaudited interim consolidated financial statements.

ROCK ENERGY INC.

Interim Consolidated Statements of Income (Loss), Comprehensive Income (Loss) and Retained Earnings (Deficit)
(*unaudited)*

(all amounts in $'000 except per share amounts)	**Three months ended Sept 30, 2009**	Three months ended Sept 30, 2008	**Nine months ended Sept 30, 2009**	Nine months ended Sept 30, 2008
Revenues				
Crude oil and natural gas	**$12,124**	$24,432	**$35,428**	$64,530
Royalties	**(2,363)**	(5,196)	**(6,541)**	(13,728)
	9,761	19,236	**28,887**	50,802
Expenses:				
Operating	**4,301**	4,243	**12,294**	11,902
General and administrative	**746**	687	**2,180**	2,245
Interest	**283**	385	**818**	1,234
Stock based compensation (note 5)	**162**	312	**975**	919
Goodwill impairment (note 2)	**-**	5,748	**-**	5,748
Depletion, depreciation and accretion	**6,497**	7,116	**20,813**	20,304
	11,989	18,491	**37,080**	42,352
Income (loss) before income taxes	**(2,228)**	745	**(8,193)**	8,450
Taxes				
Provincial capital taxes	**28**	15	**101**	100
Future income taxes (reduction) (note 8)	**(544)**	1,996	**(2,576)**	4,376
Net income (loss) and comprehensive income (loss)	**(1,712)**	(1,266)	**(5,718)**	3,974
Retained earnings (deficit), beginning of period	**(42)**	7,313	**3,964**	2,073
Retained earnings (deficit), end of period	**$(1,754)**	$6,047	**$(1,754)**	$6,047
Earnings (loss) per share (note 4)				
Basic	**$(0.07)**	$(0.05)	**$(0.22)**	$0.15
Diluted	**$(0.07)**	$(0.05)	**$(0.22)**	$0.15

See accompanying notes to unaudited interim consolidated financial statements.

ROCK ENERGY INC.

Interim Consolidated Statements of Cash Flows
(unaudited)

(all amounts in $'000)	**Three months ended Sept 30, 2009**	Three months ended Sept 30, 2008	**Nine months ended Sept 30, 2009**	Nine months ended Sept 30, 2008
Cash provided by (used in):				
Operating:				
Net income (loss)	**$(1,712)**	$(1,266)	**$(5,718)**	$3,974
Add (less) non-cash items:				
Depletion, depreciation and accretion	**6,497**	7,116	**20,813**	20,304
Goodwill impairment	**-**	5,748	**-**	5,748
Stock-based compensation	**162**	312	**975**	919
Future income taxes (reduction)	**(544)**	1,996	**(2,576)**	4,376
Asset retirement expenditures	**(54)**	-	**(54)**	(90)
	4,349	13,906	**13,440**	35,231
Changes in non-cash working capital	**(1,844)**	3,476	**(4,981)**	98
	2,505	17,382	**8,459**	35,329
Financing:				
Issuance of common shares	**-**	81	**226**	81
Repurchase of stock options	**(10)**	(198)	**(12)**	(205)
Bank debt	**1,769**	(2,524)	**3,346**	3,002
	1,759	(2,641)	**3,560**	2,878
Investing:				
Property, plant and equipment	**(4,599)**	(18,323)	**(10,068)**	(42,160)
Disposition of property, plant and equipment	**-**	149	**-**	1,243
Changes in non-cash working capital	**335**	3,433	**(1,951)**	2,710
	(4,264)	(14,741)	**(12,019)**	(38,207)
Change in cash	**-**	-	**-**	-
Cash, at beginning and end of period	**$ -**	$ -	**$ -**	$ -
Interest and cash taxes paid and received:				
Interest paid	**$ 283**	$ 385	**$ 818**	$ 1,234
Cash taxes paid	**$ -**	$ -	**$ -**	$ -

See accompanying notes to unaudited interim consolidated financial statements.

For the Period Ended September 30, 2009 (all amounts in $'000 except per share amounts)

These unaudited interim consolidated financial statements include the accounts of Rock Energy Inc. ("Rock" or the "Company") and its wholly-owned subsidiaries, Rock Energy Ltd. and Rock Energy Production Partnership. These unaudited interim consolidated financial statements have been prepared following the same accounting policies and methods of computation as the audited financial statements for the year ended December 31, 2008 except as disclosed in note 1 below. The disclosures herein are incremental to those included with the annual consolidated financial statements. These unaudited interim consolidated financial statements and notes should be read in conjunction with the audited consolidated financial statements and the notes thereto in the Company's annual report for the year ended December 31, 2008. Preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results may differ from these estimates.

1. Changes in Accounting Policies

New Accounting Standard:

As at January 1, 2009 the Company adopted the new standards for Goodwill and Intangible Assets. Handbook Section 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The new standards concerning goodwill are unchanged from the previous standard, resulting in no impact to the consolidated interim financial statements of the Company.

Pending Accounting Changes:

In January 2009, the CICA issued new standards for Business Combinations. This standard is effective January 1, 2011 and applies prospectively to business combinations for which the acquisition date is on or after the first annual reporting period beginning on or after January 1, 2011 for the Company. Early adoption is permitted. This standard replaces, Business Combination and harmonizes the Canadian standards with IFRS. This standard was amended to require additional use of fair value measurements, recognition of additional assets and liabilities, and increased disclosure. Adopting this standard is expected to have a significant impact on the way the Company accounts for future business combinations.

In May 2009, the CICA issued amendments to Handbook Section 3862 – "Financial Instruments – Disclosures," to include additional disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosures. These amendments outline a hierarchy of methods used to determine the fair value of financial instruments at the balance sheet date. Level 1 inputs are based on quoted prices in active markets that can be accessed at the measurement date. Level 2 inputs are based on quoted prices in the markets that are not active or based on prices that are observable for the asset or liability. Level 3 inputs are based on unobservable inputs for the asset or liability. These additional disclosures are effective December 31, 2009.

In 2008, the CICA Accounting Standards Board confirmed the changeover to IFRS from Canadian GAAP will be required for publicly accountable enterprises effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The eventual changeover to IFRS represents changes due to new accounting standards. The Company continues to monitor and assess the impact of the convergence of Canadian GAAP and IFRS but has not at this time made any determination on the impact on the Company's financial statements.

2. Property, Plant and Equipment

	September 30, 2009	December 31, 2008
Petroleum and natural gas properties	$211,377	$200,994
Other assets	1,444	1,432
	212,821	202,426
Accumulated depletion and depreciation	(85,338)	(64,720)
	$127,483	$137,706

At September 30, 2009, the depletable base for the petroleum and gas properties included $8,211 (December 31, 2008 - $11,704) of future development costs and excluded $18,151 (December 31, 2008 – $17,761) of unproved property costs.

During the nine months ended September 30, 2009, $1,122 (September 30, 2008 – $1,192) of administrative costs relating to exploration and development activities were capitalized as part of property, plant and equipment.

As at September 30, 2008 goodwill of $5,748 was written off due to the application of a market based impairment test.

3. Risk Management and Financial Instruments:

Commodity Price Risk:

Due to the volatile nature of commodity prices the Company is potentially exposed to adverse consequences if commodity prices decline. However, if commodity prices are hedged potential upside gains may also be forfeited. As of September 30, 2009 the Company did not have any commodity price contracts.

Foreign Currency Exchange Risk:

The Company is exposed to foreign currency fluctuations as crude oil and gas prices received are referenced in U.S. dollar denominated prices. As of September 30, 2009 the Company did not have any foreign currency exchange contracts in place.

Credit Risk:

Substantially all of the accounts receivable are with customers, joint interest partners and oil and gas marketers and are subject to normal industry credit risks. Receivables from customers and joint venture partners are generally collected within one to three months. The Company attempts to mitigate this risk by entering into transactions with long-standing and reputable organizations and by obtaining partner approval of significant capital expenditures and payment of cash advances wherever possible. Further risk exists with joint interest partners as disagreements occasionally arise and may increase the potential for non-collection. Currently, there is no indication that amounts are non-collectable thus, an allowance has not been set up. Receivables related to oil and gas marketers are normally collected on the 25th day of the month following production. To mitigate the risk on these receivables the Company will predominately establish relationships with large marketers who have strong credit ratings and solid reputations. Historically, the Company has not experienced any issues in collecting from its oil and gas marketers. As at September 30, 2009 the Company's receivables consisted of $1,230 (December 31, 2008 - $7,966) from joint interest partners, $4,641 (December 31, 2008 - $3,397) from oil and gas marketers, $1,468 (December 31, 2008 – nil) of drilling incentive credits and $122 (December 31, 2008 - $533) of other trade receivables..

Fair Value of Financial Instruments:

The Company's exposure under its financial instruments is limited to financial assets and liabilities, all of which are included in these financial statements. The fair values of the financial assets and liabilities included in the balance sheet approximate their carrying amounts.

Interest Rate Risk:

The Company is exposed to interest rate risk to the extent that bank debt is at a floating short term rate of interest. The Company does not have any financial or interest rate contracts in place as of September 30, 2009. A 1% change to the floating short term interest rates is estimated to result in a $63 change in net income for the third quarter 2009.

4. Share Capital and Contributed Surplus

Authorized:

Unlimited number of voting common shares, without stated par value.
300,000 preference shares, without stated par value of which none have been issued.

Common Shares issued:

	Number	Amount
Issued and outstanding on December 31, 2007	25,877,642	$81,600
Future tax effect of flow-through share renouncements	-	(98)
Issued on exercise of stock options	13,334	59
Issued for flow-through shares (i)	8,867	39
Issued and outstanding on December 31, 2008	25,899,843	81,600
Issued for flow-through shares (ii)	300,000	219
Issued on exercise of stock options	7,400	11
Issued and outstanding on September 30, 2009	26,207,243	$81,830

(i) In accordance with the Company's stock option plan, some options were exercised in exchange for flow-through shares of the Company.
(ii) The Company issued flow through shares to a new management appointee in April 2009. The Company is obligated to spend $219 of expenditures related to exploration activities by December 31, 2009.

Per share amounts:

Per share amounts have been calculated on the weighted average number of shares outstanding. The weighted average common shares outstanding for the three month period ended September 30, 2009 was 26,207,243 (September 30, 2008 – 25,885,943) and 26,089,340 (September 30, 2008 – 25,880,429) for the nine months ended September 30, 2009.

In computing the diluted per share amount for the three month period ended September 30, 2009 a total of 488,877 shares (September 30, 2008 – 269,000 shares) were added to the weighted average number of common shares outstanding for the dilutive effect of employee stock options. For the nine months ended September 30, 2009 a total of 6,306 shares (September 30, 2008 – 126,265 shares) were added to the weighted average shares outstanding for the dilutive effect of employee stock options.

Stock options:

The Company has a stock option plan ("Plan") under which it may grant options to directors, officers and employees for the purchase of up to 10% of the issued and outstanding common shares of the Company. Options are granted at the discretion of the board of directors. The exercise price, vesting period and expiration period are also fixed at the time of grant at the discretion of the board of directors. The initial grant of options vest yearly in one-third tranches beginning on the first anniversary of the grant date and expire one year after vesting. Options granted to replace an expiring tranche, if applicable, vest in two years and expire in three years. The following tables summarize the stock options outstanding at September 30, 2009.

	Number of Options	Weighted Average Exercise Price
December 31, 2007	2,307,822	$3.42
Granted	444,532	$2.92
Exercised (i)	(198,240)	$3.26
Forfeited	(423,328)	$3.28
Expired	(386,582)	$4.61
December 31, 2008	1,744,204	$3.09
Granted	1,615,399	$1.03
Exercised (ii)	(16,551)	$0.94
Forfeited	(302,676)	$2.50
Cancelled	(1,367,028)	$3.15
Expired	(46,666)	$4.79
September 30, 2009	1,626,682	$1.07

(i) 184,906 options were put back to the Company for the in-the-money gain.
(ii) 9,151 options were put back to the Company for the in-the-money gain.

	Outstanding Options			Exercisable Options	
Exercise Prices	Number of Options	Weighted Average Exercise Price	Weighted Average Years to Expiry	Number of Options	Weighted Average Exercise Price
$0.84 - $0.99	1,313,682	$0.87	2.43	38,084	$0.94
$1.61 - $2.09	313,000	$1.91	2.56	-	-
	1,626,682	$1.07	2.47	38,084	$0.94

Contributed Surplus:

	Nine months ended September 30, 2009	Year ended December 31, 2008
Opening balance	$3,458	$2,521
Stock based compensation expense	975	1,158
Net benefit on options exercised(1)	(16)	(221)
Closing balance	$4,417	$3,458

(1) The benefit of options exercised or repurchased is recorded as a reduction of contributed surplus and an increase to share capital.

5. Stock Based Compensation

Options granted are accounted for using the fair value method. The fair value of 1,615,399 common share options granted during the nine months ended September 30, 2009 was estimated to be $1,012. The fair value of common share options as at the grant date is determined using the Black-Scholes option pricing model with the following assumptions.

Risk free interest rate:	2.4%	Expected volatility:	105%
Expected life:	3 years	Expected dividend yield:	0%

6. Bank Debt

The Company has a demand operating credit facility with a Canadian chartered bank subject to the bank's valuation of the Company's oil and gas properties. The limit under the facility at September 30, 2009 is $47 million. 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 bears interest at the bank's prime rate or at prevailing banker's 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 amount of the facility is subject to a borrowing base test performed on a periodic basis by the lender, based primarily on reserves and using commodity prices estimated by the lender as well as other factors. A decrease in the borrowing base could result in a reduction to the credit facility. The next interim review for the facility is to be completed by April 1, 2010.

7. Asset Retirement Obligation

The asset retirement obligation results from net ownership interests in petroleum and gas assets including well sites, gathering systems and processing facilities. The Company estimates the total undiscounted amount of cash flows required to settle its asset retirement obligation at September 30, 2009 at approximately $7,994 (December 31, 2008 - $7,716). A credit adjusted risk free rate of 8% (September 30, 2008 – 8%) and an inflation rate of 1.5% (September 30, 2008 – 1.5%) were used to calculate the fair value of the asset retirement obligation. These obligations are expected to be incurred from the current year through to 2028 and are expected to be funded through general corporate funds at the time of retirement.

The following table outlines a reconciliation of the asset retirement obligation:

Asset retirement obligation	Nine months ended September 30, 2009	Year ended December 31, 2008
Opening balance	$4,497	$3,840
Liabilities incurred	205	549
Accretion	195	260
Revisions	122	(58)
Actual retirement costs	(54)	(94)
Closing balance	$4,965	$4,497

8. Income Taxes

The provision for income taxes varies from the amount that would be computed by applying the expected tax rate to net income (loss) before income taxes. The expected tax rate used was 29.8% (September 30, 2008: 30.0%). The principal reasons for differences between such "expected" income tax expense and the amount actually recorded are as follows:

	Nine months ended September 30, 2009	Nine months ended September 30, 2008
Income (loss) before income taxes	$(8,193)	$8,450
Statutory income tax rate	29.8%	30.0%
Expected income taxes (reduction)	$(2,442)	$2,535
Add (deduct):		
Stock-based compensation	291	276
Goodwill impairment	-	1,724
Change in rate	(448)	(316)
Other	23	157
Future income taxes (reduction)	$(2,576)	$4,376

9. Commitments

The Company has the following obligations with fixed terms:

	2009	2010	2011	2012
Office lease premises	$207	$828	$828	$552
Processing arrangements	$90	$288	$238	$159

10. Capital Disclosures

In order to continue the Company's future exploration and development program, the Company must maintain a strong capital base. A strong capital base will enable the Company to access the equity and debt markets when deemed advisable and maintain existing shareholders as well as attract new investors. In order to maintain a strong capital base, the Company continually monitors the risk reward profile of its exploration and development projects and the economic indicators in the market including commodity prices, interest rates and foreign exchange rates. It then determines increases or decreases to its capital budget.

The Company considers shareholders' equity, bank debt and working capital as components of its capital base. The Company can access or increase capital through the issuance of shares, through bank borrowings, that are based on crude oil and natural gas reserves, and by building cash reserves by reducing its capital expenditure program.

The Company monitors its capital based primarily on its debt to annualized funds flow ratio. Debt includes bank debt plus or minus working capital. Annualized funds flow is calculated as cash flow from operations before changes in non-cash working capital and asset retirement expenditures from the Company's most recent quarter multiplied by four. The Company intends to manage its debt at a ratio of approximately 1.5:1 depending on the timing and nature of the Company's activities. To facilitate the management and control of this ratio, the Company prepares an annual operating and capital expenditure budget. The budget is updated when critical factors change. These factors include economic factors such as the state of equity markets, changes to commodity prices, interest rates and foreign exchange rates and non economic factors such as the Company's drilling results and its production profile. The Company's board of directors approves the budget and changes thereto.

At September 30, 2009 the Company's debt to funds flow ratio was 2.0:1 which was subsequently reduced as a result of the equity financing described in Note 11.

The Company's share capital is not subject to external restrictions but the Company does have financial covenants in regards to its operating bank facility. The facility requires that the Company maintain a working capital ratio, as defined, of not less than 1:1. The calculation allows for the unused portion of the credit facility to be added to current assets and deduction of the current portion of bank debt from the current liabilities. The Company was in compliance with this covenant as at September 30, 2009.

11. Subsequent Event

On October 29, 2009 the Company closed an equity financing of 4,350,000 common shares at a price of $3.50 per share for gross proceeds of $15.2 million (net proceeds of $14.1 million). The net proceeds from the equity issue will be used to fund the Company's ongoing capital expenditures program and for general corporate purposes.

Corporate Information

BOARD OF DIRECTORS
Stuart G. Clark
Chairman of the Board
Independent Businessman

Allen J. Bey
President and Chief Executive Officer
Rock Energy Inc.
Calgary, Alberta

Malcolm T. D. Adams
Vice President
ARC Financial Corp.
Calgary, Alberta

Peter V. Malowany
President
Morgas Ltd.
Calgary, Alberta

James K. Wilson
Vice President, Finance and Chief Financial Officer
Grizzly Resources Ltd.
Calgary, Alberta

OFFICERS
Allen J. Bey
President and Chief Executive Officer

Jeffrey G. Campbell
Vice President, Operations and
Chief Operating Officer

Arezki Ioughlissen
Vice President, Exploration

John H. Van de Pol
Vice President, Finance and Chief Financial Officer

Grant A. Zawalsky
Corporate Secretary

EXECUTIVE OFFICE
Suite 800 607 – 8th Avenue S.W.
Calgary, Alberta T2P 0A7
Telephone: (403) 218-4380
Fax: (403) 234-0598
e-mail:info@rockenergy.ca

AUDITORS
KPMG LLP

BANK
National Bank of Canada

ENGINEERING CONSULTANT
GLJ Petroleum Consultants Ltd.

SOLICITORS
Burnet Duckworth & Palmer LLP

STOCK EXCHANGE LISTING
TSX
Stock Symbol: RE

REGISTRAR & TRANSFER AGENT
Alliance Trust Company
Suite 450 407 2nd Street S.W.
Calgary, Alberta T2P 2Y3
Telephone: (403) 237-6111

WEBSITE
www.rockenergy.ca

rockenergy INC.