

# 2010 SECOND QUARTER REPORT

FOR THE SIX MONTHS ENDED JUNE 30, 2010

 **rockenergy**

TSX: RE

## CORPORATE SUMMARY

<b>FINANCIAL</b>	<b>Three Months Ended 06/30/10</b>	<b>Three Months Ended 06/30/09</b>	<b>Six Months Ended 06/30/10</b>	<b>Six Months Ended 06/30/09</b>
Crude oil and natural gas revenue ('000)	\$ 15,285	\$ 11,621	\$ 32,125	\$ 23,304
Funds from operations ('000) <sup>(1)</sup>	\$ 6,283	\$ 5,195	\$ 13,246	\$ 9,091
Per share - basic	\$ 0.21	\$ 0.20	\$ 0.43	\$ 0.35
- diluted	\$ 0.20	\$ 0.20	\$ 0.42	\$ 0.35
Net loss ('000)	\$ (601)	\$ (1,745)	\$ (548)	\$ (4,006)
Per share - basic	\$ (0.02)	\$ (0.07)	\$ (0.02)	\$ (0.15)
- diluted	\$ (0.02)	\$ (0.07)	\$ (0.02)	\$ (0.15)
Capital expenditures, net ('000)	\$ 7,188	\$ 2,095	\$ 20,853	\$ 5,469
	<b>As at 06/30/10</b>	<b>As at 06/30/09</b>		
Bank debt, net of working capital ('000)	\$ 33,230	\$ 34,777		
Common shares outstanding	30,808,928	26,207,243		
Options outstanding	2,010,128	1,419,149		
<b>OPERATIONS</b>	<b>Three Months Ended 06/30/10</b>	<b>Three Months Ended 06/30/09</b>	<b>Six Months Ended 06/30/10</b>	<b>Six Months Ended 06/30/09</b>
<b>Average daily production</b>				
Crude oil and natural gas liquids (bbls/d)	2,418	1,698	2,350	1,800
Natural gas (mcf/d)	7,813	9,785	7,637	10,631
Total (boe/d)	3,720	3,329	3,623	3,572
<b>Average product prices</b>				
Crude oil and natural gas liquids (Cdn\$/bbl)	\$ 56.23	\$ 54.53	\$ 60.54	\$ 44.51
Natural gas (Cdn\$/mcf)	\$ 4.10	\$ 3.59	\$ 4.61	\$ 4.57
Combined (Cdn\$/boe)	\$ 45.15	\$ 38.37	\$ 48.99	\$ 36.04
Field netback (Cdn\$/boe) <sup>(1)</sup>	\$ 23.17	\$ 20.81	\$ 24.87	\$ 17.22

Note <sup>(1)</sup> Funds from operations, funds from operations per share and field netback are not terms under generally accepted accounting principles (GAAP). Funds from operations represents cash generated from operating activities before changes in non-cash working capital and asset retirement expenditures. Rock considers funds from operations a key measure as it demonstrates the Company's ability to generate the cash necessary to fund future growth through capital investment. Funds from operations per share is calculated using the same share basis which is used in the determination of net income (loss) per share. Field netback is calculated as crude oil and natural gas revenues after deducting royalties, operating costs and transportation costs, resulting in an approximation of initial cash margin in the field on crude oil and natural gas production. Rock's use of these non GAAP measurements may not be comparable with the calculation of similar measures for other companies.

## LETTER TO THE SHAREHOLDERS

During the second quarter of 2010 Rock continued to generate growth in its operating and financial results driven by its heavy oil operations even though the Company's operations were adversely affected by weather conditions throughout the period. The quarter was highlighted by the following achievements:

- Daily production increased for the third quarter in a row and averaged 3,720 boe per day;
- Increased funds from operations for the second quarter of 2010 to \$6.3 million (\$0.21/share) compared to \$5.2 (\$0.20/share) in the second quarter of 2009;
- Drilled and cased 8 (8.0 net) heavy oil wells.

Rock's daily production for the second quarter of 2010 averaged 3,720 boe per day (65% crude oil and natural gas liquids), and is currently estimated to be approximately 3,800 boe per day. The Company is continuing with a planned capital program including the drilling of an additional 11 heavy oil wells in the Plains region and an additional five wells in the West Central Alberta core area. The Company is also proceeding with its recompletion/re-activation program of heavy oil wells and expects to have measureable results by the end of the third quarter of 2010. Rock anticipates daily production to reach 4,400 – 4,600 boe per day by year end with a product mix that is expected to be 72% crude oil and natural gas liquids.

Financially, Rock generated funds from operations of \$6.3 million (\$0.21 per basic share) in the second quarter of 2010. Rock's realized price in the second quarter of 2010 was \$45.15 per boe compared to \$38.37 per boe in the second quarter of 2009. The increase in price realizations can be attributed to the increase in crude oil prices. These positive crude oil price movements more than offset the decline in natural gas prices. Rock generated funds from operations per boe of \$18.56 compared to \$17.15 per boe in the second quarter of 2009. An increase in our operating costs occurred during the second quarter of 2010 as heavy oil production increased. Although operating costs have increased, the Company realized a field netback of \$23.17 per boe (increase of 11%) compared to \$20.81 per boe realized in the same period of 2009.

Net capital expenditures for the second quarter of 2010 were \$7.2 million and total net debt at the end of the quarter was \$33.2 million against total bank credit lines of \$50.0 million.

Rock's Board of Directors have approved a capital budget of \$43.3 million for 2010 which is planned to be financed primarily from expected cash flow of \$30.7 million with the remainder financed from bank debt. This capital program of 30 heavy oil wells, nine natural gas wells and one light oil well will provide significant growth in our daily production. In addition, the program will continue to exploit our vertical drilling opportunities and will further confirm our Elmworth natural gas resource play. The success of our 100% working interest vertical Montney test well drilled earlier this year has exceeded our expectations and has confirmed the existence of deeper Montney natural gas reserves on our Elmworth lands in West Central Alberta.

Rock is forecasting production to average 3,800 – 4,000 boe per day in 2010 and to grow by over 25% from year-end to exit 2010 at 4,400-4,600 boe per day. Assuming that crude oil prices average US \$82.00 WTI per barrel for the remainder of 2010 and natural gas at AECO averages \$4.00 CDN/mcf with an exchange rate of \$0.96 CDN\$/US\$ the Company would generate cash flow of \$30.7 million (or \$1.00/share) and have year-end 2010 net debt of \$38.2 million.

In June 2010, Rock announced the addition of Kenneth H.F. Severs to the Board of Directors of the Company. We look forward to his support and contribution in the future.

Rock continues to develop a large inventory of over 230 vertical drilling opportunities which are balanced between heavy oil (130) and conventional natural gas plays (100). With respect to our tight gas resource play in Elmworth, Rock plans to drill one horizontal well by the end of 2010 using multistage fracturing techniques on the Montney zone and up to three vertical wells to confirm the extent of the play on our lands. This program is expected to add significant natural gas resources to Rock's portfolio that can be brought on production in 2011 and 2012.

During 2010 Rock is focused on increasing our crude oil production and proving up our natural gas reserves. 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. Rock is also 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) "John H. Van de Pol"  
President & CFO

August 11, 2010

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Rock Energy Inc. ("Rock" or the "Company") is a publicly traded 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, funds from operations and field netbacks. 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 financial contribution of crude oil and natural gas operations after the deduction of royalties, transportation costs, and operating expenses.

Rock faces competition in the oil and gas industry for resources, including technical personnel and third-party services. The Company focuses on hiring and retaining personnel with the expertise to develop opportunities on existing lands and control operating and administrative cost structures. Rock also seeks to obtain the best price available based on the quality of its produced commodities.

The following discussion and analysis is dated August 11, 2010 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, 2009. 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, 2009.

### Basis of Presentation

Certain financial measures referred to in this discussion, such as funds from operations and funds from operations per share, are not prescribed by GAAP in Canada. Funds from operations is a key measure that demonstrates the ability to generate cash to fund expenditures. Funds from operations is calculated by taking cash provided by operations from the consolidated statement of cash flows and adjusting for changes in non-cash working capital and asset retirement expenditures. Funds from operations per share is calculated using the same methodology for determining net income (loss) per share. Rock's use of 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 (loss) or other measures of financial performance calculated in accordance with GAAP. The reconciliation between funds from operations and cash flow from operations for the three and six months ended June 30, 2010 and 2009 is presented in the table below.

('000's)	<b>Three Months Ended 06/30/10</b>	Three Months Ended 06/30/09	<b>Six Months Ended 06/30/10</b>	Six Months Ended 06/30/09
Cash provided by operations	<b>\$ 3,849</b>	\$ 1,029	<b>\$ 11,770</b>	\$ 5,954
Add (deduct):				
Changes in non-cash working capital	<b>2,358</b>	4,166	<b>1,357</b>	3,137
Asset retirement expenditures	<b>76</b>	-	<b>119</b>	-
Funds from operations	<b>\$ 6,283</b>	\$ 5,195	<b>\$ 13,246</b>	\$ 9,091

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. 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 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, interest expense, future income taxes, drilling plans, 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 (Cdn\$) unless otherwise noted.

## Guidance and Outlook

Rock issued guidance on May 10, 2010 for projected 2010 results. The Company is updating its guidance at this time primarily to reflect changes in commodity prices and increased operating costs. Throughout 2010 Rock plans to maintain a balance sheet that has debt to annualized quarterly funds from operations ratio that is not in excess of 1:5:1.0. Rock's capital budget has been designed and can be adjusted taking into account changes in commodity prices and resulting funds flows. Rock expects to drill 10 (4.9 net) wells in the West Central Alberta core area and 30 (30.0 net) heavy oil wells in the Plains core area.

Current strip pricing shows the WTI crude oil price forecast at US \$82.00/bbl for the remainder of the year. Natural gas prices have been forecast to decline for the remainder of 2010 from first half AECO prices of \$4.42 per mcf to an average AECO price of \$4.00 per mcf for the remaining six months of 2010. As a result of the adjustment in pricing and the Alberta royalty incentive program, royalty rates have been decreased to approximately 18 percent. Forecasted operating costs have increased to \$16.27 per boe for 2010 compared to \$13.91 per boe in 2009. This increase reflects the steady increase of higher cost heavy oil wells in our production mix. General and administrative expenses are expected to be \$2.97 per boe compared to \$2.53 per boe in 2009. 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 \$43.3 million capital budget, including \$1.8 million for property acquisitions, from which Rock is projecting 2010 annual production to increase by a range of 11 percent to 16 percent over average 2009 levels. Funds from operations of \$30.7 million (\$1.00 per basic share) are projected to increase by approximately 56 percent from 2009 levels due to higher commodity prices and production. Year-end net debt is projected to be \$38.2 million with a debt to annualized fourth quarter funds from operations ratio of 1.0:1. The table below provides Rock's guidance.

	<b>August 11, 2010 Guidance</b>	<b>May 10, 2010 Guidance</b>
Annual	3,800 –4,000	3,800 –4,000
Exit (December average)	4,400 –4,600	4,400 –4,600
2010 funds from operations		
Annual	\$30.7 million	\$35.0 million
Annual - per basic share	\$1.00	\$1.15
2010 capital budget		
Expenditures	\$43.3 million	\$41.6 million
Wells Drilled	40 – 45	40 – 45
Total year-end net debt <sup>(1)</sup>	\$38.2 million	\$32.0 million
Pricing	(July to December)	(April to December)
Crude oil – WTI	US\$82.00/bbl	US\$85.00/bbl
Natural gas – AECO	\$4.00/mcf	\$4.00/mcf
Cdn\$/US\$ exchange rate	\$0.96	\$1.00

<sup>(1)</sup> Net debt is the working capital deficiency including bank debt.

## Production

Production by Product	Three	Three	Change	Six	Six	Change
	Months	Months		Months	Months	
	Ended	Ended		Ended	Ended	
	06/30/10	06/30/09		06/30/10	06/30/09	
Heavy oil (bbls/d)	<b>2,118</b>	1,347	57%	<b>2,036</b>	1,432	42%
Light oil (bbls/d)	<b>101</b>	135	(25)%	<b>103</b>	138	(25)%
Natural gas (mcf/d)	<b>7,813</b>	9,785	(20)%	<b>7,637</b>	10,631	(28)%
Natural gas liquids (bbls/d)	<b>199</b>	216	(8)%	<b>211</b>	230	(8)%
Total boe/d (6:1)	<b>3,720</b>	3,329	12%	<b>3,623</b>	3,572	1%

Production for the three and six months ended June 30, 2010 has increased 12% and 1%, respectively, over the same period in 2009 due to the increase in heavy oil production offsetting the decrease in natural gas, light oil and natural gas liquids production. A decline in natural gas and related natural gas liquids production is related to reduced drilling activity in 2009 and 2010 due to low natural gas prices. Light oil declines are attributed to a non-core property which is experiencing natural production declines. Heavy oil production increases were primarily attributable to the successful heavy oil drilling programs in 2010 and 2009. Rock currently anticipates completing a 30 well heavy oil drilling program in the Plains area in 2010, of which 19 were drilled in the first six months of 2010. Of the heavy oil wells drilled in the six months ended June 30, 2010, 13 were producing by June 30, 2010 with all wells completed at the date of this report.

## Product Prices

	Three	Three	Change	Six	Six	Change
	Months	Months		Months	Months	
	Ended	Ended		Ended	Ended	
	06/30/10	06/30/09		06/30/10	06/30/09	
Realized product prices						
Heavy oil (\$/bbl)	<b>55.40</b>	56.56	(2)%	<b>60.07</b>	45.35	32%
Light oil (\$/bbl)	<b>73.64</b>	61.62	20%	<b>76.49</b>	50.04	53%
Natural gas (\$/mcf)	<b>4.10</b>	3.59	14%	<b>4.61</b>	4.57	1%
Natural gas liquids (\$/bbl)	<b>56.14</b>	37.44	50%	<b>57.18</b>	36.03	59%
Combined average (\$/boe)	<b>45.15</b>	38.37	18%	<b>48.99</b>	36.04	36%
Cdn\$/US\$ exchange rate	<b>0.973</b>	0.858	13%	<b>0.967</b>	0.831	16%
Average reference prices						
Crude oil – WTI Cushing, Oklahoma (US\$/bbl)	<b>78.03</b>	59.62	31%	<b>78.37</b>	51.35	53%
Crude oil – Edmonton light (Cdn\$/bbl)	<b>75.20</b>	65.90	14%	<b>77.63</b>	57.78	34%
Heavy oil – WCS (Cdn\$/bbl)	<b>65.62</b>	60.71	8%	<b>69.08</b>	51.63	34%
Natural gas – Henry Hub Daily Spot (US\$/mmbtu)	<b>4.32</b>	3.71	16%	<b>4.73</b>	4.14	14%
Natural gas – AECO C Daily Spot (Cdn\$/mcf)	<b>3.89</b>	3.46	12%	<b>4.43</b>	4.21	5%
Differentials						
Realized heavy oil price to Edmonton light	<b>26%</b>	14%	86%	<b>23%</b>	22%	5%
Realized heavy oil price to WCS	<b>16%</b>	7%	129%	<b>13%</b>	12%	8%

In the second quarter of 2010 average realized commodity prices of \$45.15 per boe were 18% percent higher than the same quarter of 2009. Light crude oil and natural gas liquid commodity prices have strengthened considerably during the second quarter of 2010 compared to the same period in 2009. Although WTI crude oil prices have increased, the Company experienced a widening of the heavy oil differential in the second quarter of 2010 and a significant change in the Cdn\$/US\$ exchange rate. As a result, average heavy oil prices of \$55.40 per boe for the second quarter of 2010 were 2% lower compared to same quarter of 2009. Corporate heavy oil price to Edmonton light represented a 26% differential in the second quarter of 2010 compared to only 14% in the same period of 2009. The Company believes that this widening is short lived due to increased heavy oil refinery capacity and pipeline expansion. Natural gas prices have strengthened in the second quarter of 2010, representing a 12% increase from the same period of 2009.

For the first half of 2010, the Company experienced continued improvement in commodity prices, particularly for crude oil-based products. Corporate heavy oil prices in the first half of 2010 were \$60.07 per barrel. The futures markets currently indicate that WTI prices may average approximately US \$82.00 per barrel for the remainder of 2010 therefore averaging US \$80.19 for the year. Realized natural gas prices for the six months ended 2010 have remained relatively consistent with the same period of

2009. The current AECO natural gas price is approximately \$4.00 per mcf for the remainder of 2010 or 28% lower than the year end 2009 natural gas prices. Rock has not hedged any of its production at this point in time.

## Revenue

The Company's revenue is derived from crude oil and natural gas operations.

	<b>Three Months Ended 06/30/10</b>	Three Months Ended 06/30/09	Change	<b>Six Months Ended 06/30/10</b>	Six Months Ended 06/30/09	Change
Crude oil and natural gas	<b>\$ 15,285</b>	\$ 11,621	32%	<b>\$ 32,125</b>	\$ 23,304	38%

Crude oil and natural gas revenue for the second quarter of 2010 increased by 32% compared to the same quarter of 2009. The increase is the result of a 12% increase in average product and from improved commodity prices representing an 18% increase in the realized sales price over the second quarter of 2009. Similarly, crude oil and natural gas revenue for the six months ended June 30, 2010 was impacted by increased production and commodity prices.

## Royalties

	<b>Three Months Ended 06/30/10</b>	Three Months Ended 06/30/09	Change	<b>Six Months Ended 06/30/10</b>	Six Months Ended 06/30/09	Change
Royalties	<b>\$ 1,716</b>	\$ 1,563	10%	<b>\$ 4,899</b>	\$ 4,178	17%
As a percentage of crude oil and natural gas revenue	<b>11.2%</b>	13.5%	(17)%	<b>15.2%</b>	17.9%	(15)%
Per boe (6:1)	<b>\$ 5.07</b>	\$ 5.16	(2)%	<b>\$ 7.47</b>	\$ 6.46	16%

Royalties for the periods ended June 30, 2010 are higher on an absolute basis in comparison to the same periods of 2009 as a result of increased commodity prices. Royalty expense on a boe basis during the second quarter 2010 benefited from a retroactive gas cost allowance adjustment received from the Alberta government. As a result, on a percentage basis royalty rates were 11.2% and 15.2% of crude oil and natural gas revenue for the three and six months ended June 30, 2010 compared to 13.5% and 17.9% for the same period of 2009. This reduction is also reflective of a royalty incentive program initiated by the Alberta Government in 2009. The royalty incentive program allows for a reduced crown royalty rate of five percent for new wells tied in for production from April 1, 2009 to March 31, 2011. The incentive is subject to a limit based on the earlier of twelve months production or production limits of 50,000 bbls of crude oil production or 500 mmcf of natural gas production.

## Operating Expense

	<b>Three Months Ended 06/30/10</b>	Three Months Ended 06/30/09	Change	<b>Six Months Ended 06/30/10</b>	Six Months Ended 06/30/09	Change
Operating costs	<b>\$ 5,560</b>	\$ 3,624	53%	<b>\$ 10,633</b>	\$ 7,599	40%
Transportation costs	<b>165</b>	131	26%	<b>287</b>	394	(27)%
	<b>\$ 5,725</b>	\$ 3,755	52%	<b>\$ 10,920</b>	\$ 7,993	37%
Per boe (6:1)	<b>\$ 16.91</b>	\$ 12.40	36%	<b>\$ 16.65</b>	\$ 12.36	35%

Operating expenses have increased on an absolute and boe basis during the three and six months ended June 30, 2010 over the same period in 2009 due to the increase in the overall production mix to higher cost heavy oil production. Operating costs per boe for the second quarter of 2010 are 21% above budgeted levels and operating expenses for the remainder of the year are expected to remain high on a per boe basis averaging \$16.27 per boe for the year.

## General and Administrative (G&A) Expense

	<b>Three Months Ended 06/30/10</b>	Three Months Ended 06/30/09	Change	<b>Six Months Ended 06/30/10</b>	Six Months Ended 06/30/09	Change
Gross	<b>\$ 1,740</b>	\$ 1,153	51%	<b>\$ 3,308</b>	\$ 2,186	51%
Per boe (6:1)	<b>\$ 5.14</b>	\$ 3.81	35%	<b>\$ 5.04</b>	\$ 3.38	49%
Capitalized	<b>\$ 454</b>	\$ 372	22%	<b>\$ 849</b>	\$ 752	13%
Per boe (6:1)	<b>\$ 1.34</b>	\$ 1.23	9%	<b>\$ 1.29</b>	\$ 1.16	11%
Net	<b>\$ 1,286</b>	\$ 781	65%	<b>\$ 2,459</b>	\$ 1,434	71%
Per boe (6:1)	<b>\$ 3.80</b>	\$ 2.58	47%	<b>\$ 3.75</b>	\$ 2.22	69%

Gross and net G&A expenses increased on an absolute basis in the three months ended June 30, 2010 compared to the same period in 2009. Overall costs increased due to increased staffing levels and one-time, non-recurring termination costs made in the current quarter. The impact of these costs on the second quarter of 2010 G&A was an increase of \$339 or \$1.00 per boe.

Overall costs for the six months ended June 30, 2010 compared to the same period in 2009 increased on an absolute and per boe basis due to the one-time, non-recurring termination costs discussed above and bonus payments made in 2010 relating to 2009 performance with no corresponding bonus recorded in 2009. The impact of the restructuring costs and bonuses for the six months ended 2010 net G&A was an increase of \$575 or \$0.88 per boe. On a per boe basis, G&A expenses were also impacted by the increase in production. G&A expenses for the remainder of the year are expected to decrease on a per boe basis and are expected to average \$2.97 per boe for the year. The Company capitalizes certain G&A expenses based on personnel involved in exploration and development activities, including certain salaries and related overhead costs.

## Interest Expense

	<b>Three Months Ended 06/30/10</b>	Three Months Ended 06/30/09	Change	<b>Six Months Ended 06/30/10</b>	Six Months Ended 06/30/09	Change
Interest expense	<b>\$ 254</b>	\$ 277	(8)%	<b>\$ 449</b>	\$ 535	(16)%
Per boe (6:1)	<b>\$ 0.75</b>	\$ 0.92	(18)%	<b>\$ 0.68</b>	\$ 0.83	(18)%

Interest incurred is as a result of bank borrowings. Interest expense has decreased in the second quarter and first half of 2010 compared to the same period in 2009 due to lower debt levels and interest rates. The average effective interest rate on debt for the first half of 2010 was 3.0% compared to 3.1% for the same period in 2009.

## Stock-Based Compensation Expense

	<b>Three Months Ended 06/30/10</b>	Three Months Ended 06/30/09	Change	<b>Six Months Ended 06/30/10</b>	Six Months Ended 06/30/09	Change
Charge for period	<b>\$ 174</b>	\$ 624	(72)%	<b>\$ 320</b>	\$ 813	(61)%
Per boe (6:1)	<b>\$ 0.51</b>	\$ 2.06	(75)%	<b>\$ 0.49</b>	\$ 1.26	(61)%

Stock-based compensation costs are non-cash charges which reflect the estimated value of stock options issued to directors, officers 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. The amount is primarily determined by the number of options granted, the vesting period and the estimated fair value of the options. During the six months ended June 30, 2010, 1,009,800 options were granted compared to 1,402,399 options granted in the same period in 2009. The Company capitalizes a portion of stock-based compensation expense related to personnel involved in exploration and development activities.

## Depletion, Depreciation and Accretion (DD&A) Expense

	<b>Three Months Ended 06/30/10</b>	Three Months Ended 06/30/09	Change	<b>Six Months Ended 06/30/10</b>	Six Months Ended 06/30/09	Change
Depletion and depreciation expense	<b>\$ 6,816</b>	\$ 6,629	3%	<b>\$ 13,469</b>	\$ 14,186	(5)%
Accretion expense	<b>\$ 125</b>	\$ 66	89%	<b>\$ 242</b>	\$ 130	86%
DD&A	<b>\$ 6,941</b>	\$ 6,695	4%	<b>\$ 13,711</b>	\$ 14,316	(4)%
Per boe (6:1)	<b>\$ 20.50</b>	\$ 22.10	(7)%	<b>\$ 20.91</b>	\$ 22.14	(6)%

The depletion and depreciation expense per boe for the three and six months ended June 30, 2010 decreased 7% and 6% compared to the same quarters in 2009 primarily due to reserve additions for the year ended December 31, 2009 and during the six months ended June 30, 2010. Lower depletion and depreciation expense per boe is also expected to continue for the remainder of 2010.

Accretion represents the change in the time value of the asset retirement obligation (“ARO”). Accretion expense increased for the three and six months ended June 30, 2010 compared to the same periods of 2009 due to increased estimates of abandonment costs recognized in the ARO liability at December 31, 2009 and new wells drilled during the year. The underlying ARO may increase over a period based on new obligations incurred from drilling wells, constructing facilities, acquiring operations or adjusting future estimates of timing or amounts. Similarly this obligation can be reduced as a result of abandonment work undertaken and reducing estimates or timing of 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 2010 as the Company has estimated resource tax pools available at June 30, 2010 of \$123.6 million.

## Funds from Operations and Net Loss

	Three Months Ended 06/30/10	Three Months Ended 06/30/09	Change	Six Months Ended 06/30/10	Six Months Ended 06/30/09	Change
<b>Funds from operations</b>	<b>\$ 6,283</b>	<b>\$ 5,195</b>	<b>21%</b>	<b>\$ 13,246</b>	<b>\$ 9,091</b>	<b>46%</b>
<b>Per boe (6:1)</b>	<b>\$ 18.56</b>	<b>\$ 17.15</b>	<b>8%</b>	<b>\$ 20.19</b>	<b>\$ 14.06</b>	<b>44%</b>
<b>Per share</b>						
<b>Basic</b>	<b>\$ 0.21</b>	<b>\$ 0.20</b>	<b>-</b>	<b>\$ 0.43</b>	<b>\$ 0.35</b>	<b>23%</b>
<b>Diluted</b>	<b>\$ 0.20</b>	<b>\$ 0.20</b>	<b>-</b>	<b>\$ 0.42</b>	<b>\$ 0.35</b>	<b>20%</b>
<b>Cash provided by operating activities</b>	<b>\$ 3,849</b>	<b>\$ 1,029</b>	<b>274%</b>	<b>\$ 11,770</b>	<b>\$ 5,954</b>	<b>98%</b>
<b>Net loss</b>	<b>\$ (601)</b>	<b>\$ (1,745)</b>	<b>66 %</b>	<b>\$ (548)</b>	<b>\$ (4,006)</b>	<b>86%</b>
<b>Per boe (6:1)</b>	<b>\$ (1.78)</b>	<b>\$ (5.76)</b>	<b>69 %</b>	<b>\$ (0.84)</b>	<b>\$ (6.20)</b>	<b>86%</b>
<b>Per share</b>						
<b>Basic</b>	<b>\$ (0.02)</b>	<b>\$ (0.07)</b>	<b>57 %</b>	<b>\$ (0.02)</b>	<b>\$ (0.15)</b>	<b>87%</b>
<b>Diluted</b>	<b>\$ (0.02)</b>	<b>\$ (0.07)</b>	<b>57 %</b>	<b>\$ (0.02)</b>	<b>\$ (0.15)</b>	<b>87%</b>
<b>Weighted average shares outstanding:</b>						
<b>Basic</b>	<b>30,590,799</b>	<b>26,157,555</b>	<b>17%</b>	<b>30,574,114</b>	<b>26,029,411</b>	<b>17%</b>
<b>Diluted</b>	<b>31,524,945</b>	<b>26,165,392</b>	<b>20%</b>	<b>31,567,776</b>	<b>26,029,411</b>	<b>21%</b>

Funds from operations increased over the prior year period as a result of higher production and higher commodity prices. Cash provided by operating activities has also increased for the three and six months ended June 30, 2010 as a result of increased production and commodity prices. The higher production and commodity prices also contributed to a net loss of only \$0.6 million during the three months ended June 30, 2010 compared to a net loss of \$1.7 million during the same period of 2009. Basic and diluted shares outstanding have increased due to the equity issue completed in October, 2009 and dilutive stock options.

## Capital Expenditures

	Three Months Ended 06/30/10	Three Months Ended 06/30/09	Change	Six Months Ended 06/30/10	Six Months Ended 06/30/09	Change
Land	\$ 157	\$ 293	(46)%	\$ 471	\$ 382	23%
Seismic	83	463	(82)%	516	466	11%
Drilling and completions	4,616	1,102	319%	17,496	3,327	426%
Facilities	307	430	(29)%	1,206	1,104	9%
Property acquisitions	1,751	-	100%	1,751	-	100%
Capitalized G&A and stock based compensation	562	372	51%	1,026	752	36%
	<b>\$ 7,476</b>	<b>\$ 2,660</b>	<b>181%</b>	<b>\$ 22,466</b>	<b>\$ 6,031</b>	<b>273%</b>
Drilling incentive credits	(291)	(570)	(49)%	(1,616)	(570)	184%
	<b>\$ 7,185</b>	<b>2,090</b>	<b>244%</b>	<b>\$ 20,850</b>	<b>5,461</b>	<b>282%</b>
Office equipment	3	5	(40)%	3	8	(63)%
Total net capital expenditures	<b>\$ 7,188</b>	<b>\$ 2,095</b>	<b>243%</b>	<b>\$ 20,853</b>	<b>\$ 5,469</b>	<b>281%</b>

Capital spending in the second quarter and first half of 2010 was significantly higher than the same periods of 2009 due to increased drilling activity. The Company drilled 8 (8.0 net) heavy oil wells in the Plains core area during the second quarter of 2010. Drilling activity for the first half of 2010 includes 19 (19.0 net) heavy oil wells in the Plains core area and 5 (2.3 net) natural gas wells in the West Central Alberta core area. Successful drilling resulted in an increase in proved and probable reserves in 2010. Rock's current capital budget for 2010 of \$43.3 million includes drilling an additional 11(11.0 net) heavy oil wells in the Plains core area of 2010 and an additional 5 (2.6 net) wells in the West Central Alberta core area prior to year end.

## Liquidity and Capital Resources

Rock currently plans to finance the capital expenditure program for 2010 of \$43.3 million from anticipated funds from operations of \$30.7 million with the remainder financed with bank debt. The Company has a net debt position of \$33.2 million including a positive working capital position of \$2.1 million at June 30, 2010. The Company's total debt to second quarter 2010 annualized funds from operations ratio was 1.3 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 and the equity financing completed during the fourth quarter of 2009. The Company expects to have a net debt position of approximately \$38.2 million by the end of 2010 with a debt to fourth quarter 2010 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 crude oil and natural 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 April 2010 that established the available facility at \$50 million. The next review for the facility is scheduled to be completed by the end of August 2010.

## Selected Quarterly Data

The following table provides selected quarterly information for Rock.  
(unaudited)

	Three Months Ended 06/30/10	Three Months Ended 03/31/10	Three Months Ended 12/31/09	Three Months Ended 09/30/09	Three Months Ended 06/30/09	Three Months Ended 03/31/09	Three Months Ended 12/31/08	Three Months Ended 09/30/08
Production (boe/d)	3,720	3,524	3,376	3,225	3,329	3,818	3,959	3,526
Crude oil and natural gas revenues	\$ 15,285	\$ 16,840	\$ 14,597	\$ 12,124	\$ 11,621	\$ 11,683	\$ 15,746	\$ 24,432
Average realized price (\$/boe)	\$ 45.15	\$ 53.09	\$ 47.00	\$ 40.84	\$ 38.37	\$ 33.99	\$ 43.23	\$ 75.27
Royalties (\$/boe)	\$ 5.07	\$ 10.03	\$ 8.37	\$ 7.96	\$ 5.16	\$ 7.61	\$ 9.24	\$ 16.02
Operating Expense (\$/boe)	\$ 16.91	\$ 16.38	\$ 14.49	\$ 14.50	\$ 12.40	\$ 12.33	\$ 14.99	\$ 13.08
Field netback (\$/boe) <sup>(ii)</sup>	\$ 23.17	\$ 26.68	\$ 24.14	\$ 18.38	\$ 20.81	\$ 14.05	\$ 19.00	\$ 46.17
G&A expense (\$/boe)	\$ 3.80	\$ 3.70	\$ 3.20	\$ 2.51	\$ 2.58	\$ 1.90	\$ 2.72	\$ 2.12
Interest expense (\$/boe)	\$ 0.75	\$ 0.62	\$ 0.70	\$ 0.95	\$ 0.92	\$ 0.75	\$ 0.91	\$ 1.19
Funds from operations <sup>(i)</sup>	\$ 6,283	\$ 6,963	\$ 6,150	\$ 4,403	\$ 5,195	\$ 3,896	\$ 5,520	\$ 13,906
Per share								
Basic	\$ 0.21	\$ 0.23	\$ 0.21	\$ 0.17	\$ 0.20	\$ 0.15	\$ 0.21	\$ 0.54
Diluted	\$ 0.20	\$ 0.22	\$ 0.20	\$ 0.16	\$ 0.20	\$ 0.15	\$ 0.21	\$ 0.53
Net income (loss)	\$ (601)	\$ 53	\$ (556)	\$ (1,712)	\$ (1,745)	\$ (2,261)	\$ (2,083)	\$ (1,266)
Per share								
Basic	\$ (0.02)	\$ -	\$ (0.02)	\$ (0.07)	\$ (0.07)	\$ (0.09)	\$ (0.08)	\$ (0.05)
Diluted	\$ (0.02)	\$ -	\$ (0.02)	\$ (0.07)	\$ (0.07)	\$ (0.09)	\$ (0.08)	\$ (0.05)
Capital expenditures	\$ 7,188	\$ 13,665	\$ 10,424	\$ 4,599	\$ 2,095	\$ 3,374	\$ 9,254	\$ 18,174
	As at 06/30/10	As at 03/31/10	As at 12/31/09	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
Working capital deficiency (surplus) <sup>(iii)</sup>	\$ (2,069)	\$ 3,153	\$ 2,335	\$ (2,485)	\$ (975)	\$ 3,083	\$ 4,447	\$ 4,496

<sup>(i)</sup> Funds from operations is calculated as cash generated from operating activities before changes in non-cash working capital and asset retirement expenditures.

<sup>(ii)</sup> Field netback is calculated as crude oil and natural gas revenues less royalties, transportation and operating expenses.

<sup>(iii)</sup> Working capital deficiency is calculated as current assets less current liabilities excluding bank debt.

Crude oil and natural gas production increased throughout 2008 from a combination of the growth in the West Central Alberta core area and increased heavy oil production in the Plains core area. Thereafter, crude oil and natural gas production decreased in the first three quarters of 2009 due to normal production declines as drilling activity was reduced due to low commodity prices. Production in the fourth quarter of 2009 started to increase as Rock began to execute an expanded heavy oil drilling program. Production continues to increase due to increased capital spending and is expected to increase in each quarter of 2010 and into 2011. Crude oil and natural gas revenues declined throughout the first three quarters of 2009 due to depressed commodity prices and decreased production. Prices and production began to increase during the fourth quarter of 2009 resulting in increased crude

oil and natural gas revenues for the fourth quarter of 2009 and the first quarter of 2010. Crude oil and natural gas revenues have declined in the second quarter 2010 from the first quarter 2010 due to lower commodity prices. Royalties per boe have decreased since 2008 and averaged approximately 18% in 2009 primarily due to lower commodity prices. They were approximately 19% for the first quarter of 2010 and approximately 11% for the second quarter of 2010 due to the Alberta royalty incentive program initiated in 2009 and a retroactive gas cost allowance adjustment received in the second quarter of 2010 from the Alberta government. Royalty rates are expected to be approximately 17% for 2010. Higher commodity prices during 2008 contributed to operating cost pressures particularly for trucking, fuel and well servicing costs. During the first half of 2009, well servicing was reduced due to low commodity prices resulting in lower operating expenses of \$12.40 per boe in the second quarter of 2009 and \$12.33 per boe in the first quarter of 2009. Operating costs increased through the remainder of 2009 and first and second quarters of 2010 due to a change in the Company's product mix as heavy oil prices improved and heavy oil drilling increased. G&A expenses increased during the fourth quarter of 2009 due to costs associated with year-end reporting. The first and second quarters of 2010 included bonus payments related to 2009 performance and one-time termination costs. Funds from operations have varied primarily due to changes in commodity price levels particularly in the second and third quarters of 2008 and again in the fourth quarter of 2009 and first and second quarters of 2010. Net income has improved over the last three quarters of 2009 and again during the first and second quarter of 2010 based on an increase in heavy oil pricing and from increased proved reserves recognized at December 31, 2009 and as at June 30, 2010. 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 three quarters of 2009 from the prior quarters in 2008 primarily due to an uncertain commodity price environment. For the fourth quarter of 2009 and the first half of 2010, 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 are as follows:

	<b>2010</b>	<b>2011</b>	<b>2012</b>
Office lease premises	\$261	\$523	\$349
Processing agreements	\$139	\$230	\$159

### Outstanding Share Data

At June 30, 2010 Rock had 30,808,928 common shares outstanding and 2,010,128 stock options outstanding with an average exercise price of \$2.67. At August 11, 2010 Rock has 30,808,928 common shares outstanding and 2,131,128 options to purchase common shares outstanding with an average exercise price of \$2.81.

### Disclosure Controls and Procedures

Management reported on its disclosure controls and procedures and the design of its internal controls over financial reporting in the year end 2009 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.

### International Financial Reporting Standards (IFRS)

In February 2008, the Canadian Institute of Chartered Accountants' (CICA) Accounting Standards Board (AcSB) confirmed that changeover to IFRS from Canadian GAAP will be required for publicly accountable enterprises' interim and annual financial statements effective for fiscal years beginning on or after January 1, 2011 including comparatives for 2010. This 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 Company has created a high-level plan to execute and complete this conversion project that included the completion of a preliminary assessment of the significant differences between Canadian GAAP and IFRS. This assessment highlighted areas of

difference that may impact the Company. Differences have been categorized as significant, moderate or low priority items. Significant priority items have fundamental differences between IFRS and Canadian GAAP and will require detailed analysis to facilitate policy decisions and may involve measurement differences or a combination of measurement and disclosure differences.

The Company is currently in the second phase of the project that is focusing on significant items that result in measurement differences. The Company is gathering data and analyzing the impact of these significant items. This detailed analysis will assess the impact of the significant differences to the Company and identify options available where choices in accounting policies are available. This analysis includes quantifying the effect on the Company's consolidated financial statements while considering impact on all external reporting including commonly reported ratios, covenants and investor and analyst information. Policy selection documentation will include the impacts the decision will have on internal processes and controls, system requirements, external disclosure requirements and a plan for implementation.

The Company considers the following to be the key areas that may impact the consolidated financial statements;

(A) Transition Decisions

IFRS 1 "First Time Adoption of IFRS" provides certain optional exemptions for entities adopting IFRS for the first time.

IFRS 1 contains exemptions whereby a Company may choose to apply IFRS to Property, Plant and Equipment ("PP&E") prospectively to its full cost pool provided a ceiling test under IFRS standards be conducted at the transition date. More specifically, a Company may choose to allocate the historical full cost pool to cost centers by utilizing either volume or values from current reserves at the transition date. The Company has elected to apply this optional exemption under IFRS 1 and has allocated the historical full cost pool by utilizing values on a proved and probable basis. The Company has performed ceiling test calculations at the transition date and did not have any ceiling test write-downs associated with its petroleum and natural gas properties.

As part of the aforementioned exemption, the Company will re-measure its asset retirement obligation as at the date of transition in accordance with IFRS and recognize directly into retained earnings any difference from the amount recorded under Canadian GAAP.

The Company also intends to apply the optional exemptions in respect of business combinations and share based payment transactions, both of which grant a first time adopter relief from retrospective restatement in accordance with IFRS prior to the date of transition to IFRS. The Company expects other optional exemptions and mandatory exceptions to be of limited significance.

(B) Property, Plant and Equipment and Impairment of Assets

The Company believes there are differences in this area between IFRS and Canadian GAAP that may significantly impact the Company. Rock will be required to adopt new accounting policies for PP&E upon transition to IFRS, including pre-exploration costs, exploration and evaluation costs and development costs. Differences include items that may be expensed or capitalized, numbers of depletable bases, accounting treatment for disposition of assets, levels at which ceiling tests are performed and differences in detailed ceiling test calculations.

Currently, the Company capitalizes and depletes pre-exploration costs within the country cost centre. The Company expects some pre-license exploration costs such as seismic costs where the Company has no petroleum and natural gas rights will be expensed under IFRS.

Exploration and evaluation costs are those expenditures for an area or project for which technical feasibility and commercial viability have not yet been determined. Under IFRS, the Company will initially capitalize these costs as Exploration and Evaluation assets. When technical feasibility and commercial viability is determined, the costs will be transferred to PP&E. It is likely that more exploration and evaluation costs will be expensed if technical feasibility and commercial viability cannot be established.

Development costs include those expenditures for areas or projects where technical feasibility and commercial viability have been determined. Under IFRS, the Company will continue to capitalize these costs within PP&E. The costs must be depleted on a unit-of-production basis at a lower unit of account than the country cost centre level currently utilized under Canadian GAAP. The Company is currently determining the appropriate unit of account and the inputs to be utilized in the unit-of-production

depletion calculation, which will result in DD&A being calculated at a lower unit of account and likely use both proved plus probable reserves.

Under Canadian GAAP, with respect to divestitures, there is no recognition of a gain or loss unless the deduction would result in a change to the depletion rate of 20 percent or greater, in which case a gain or loss is recorded. This is not the case with IFRS. PP&E divestitures will generally result in a gain or loss recognized.

Under IFRS, the Company is required to recognize and measure an impairment loss if the carrying value exceeds the recoverable amount for a cash-generating unit. Under IFRS, the recoverable amount is the higher of fair value less cost to sell and value in use. The Company will group its PP&E assets into six cash-generating units for the impairment calculation. Currently under Canadian GAAP impairment tests are calculated at the country level.

The Company is currently analyzing and quantifying these differences and has not assessed the total impact on the consolidated financial statements.

(C) ARO Liability

There may also be significant differences in the calculation of the ARO liability between IFRS and Canadian GAAP. The Company is in the process of evaluating the methodology by which its ARO liability will be calculated including the appropriate discount rate to use.

(D) Disclosure Requirements

Increased disclosure requirements are also necessary for IFRS. As each significant item is analyzed, disclosure requirements will be documented to ensure required information is available.

Staff training programs began in 2009 and will be ongoing as the project unfolds. The Company will also continue to monitor standards development and regulatory pronouncements which may affect the timing, nature or disclosure of its adoption of IFRS. Additional disclosures of the key elements of the transition plan and progress of the project will be provided as information becomes available.

Due to the impact of various accounting policy alternatives and anticipated changes to IFRS prior to the conversion date, Rock has not been able to fully assess the impact of IFRS conversion on its consolidated financial statements.

### **Critical Accounting Estimates**

Management is required to use judgment and estimates in the application of generally accepted accounting principles when preparing the financial results of the Company. The use of judgments and estimates may have a significant impact on the financial results of the Company. Please refer to the Management's Discussion and Analysis for the year ended December 31, 2009 for a discussion outlining these accounting policies and practices, which are critical in determining Rock's interim financial results.

### **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, information technology and certain engineering and land functions. Rock is attempting to acquire existing oil and 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 may consider using financial instruments depending on the operating environment. The Company also requires access to capital. Currently Rock has a debt facility in place and intends to use its debt capacity in the future to finance 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, continued in 2009, and are slowly improving in 2010. These conditions caused 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 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 six 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 second quarter of 2010, from those outlined in the MD&A of the Company as at December 31, 2009 which has been filed on SEDAR at [www.sedar.com](http://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.

**ROCK ENERGY INC.**

## Interim Consolidated Balance Sheets

June 30, 2010 and December 31, 2009  
(*unaudited*)

(all amounts in \$'000)	June 30, 2010	December 31, 2009
<b>Assets</b>		
Current assets:		
Accounts receivable	\$ 12,215	\$ 10,755
Prepaid expenses and deposits	1,016	1,324
	<b>13,231</b>	12,079
Property, plant and equipment (note 1)	<b>141,867</b>	133,653
	<b>\$ 155,098</b>	\$ 145,732
<b>Liabilities and shareholders' equity</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 11,162	\$ 14,414
Bank debt (note 5)	35,299	22,997
	<b>46,461</b>	37,411
Future tax liability	<b>2,139</b>	2,320
Asset retirement obligation (note 6)	<b>8,485</b>	7,533
Shareholders' equity		
Share capital (note 3)	<b>96,517</b>	96,225
Contributed surplus (note 3)	4,354	4,553
Deficit	<b>(2,858)</b>	(2,310)
	<b>98,013</b>	98,468
Commitments (note 8)		
	<b>\$ 155,098</b>	\$ 145,732

*See accompanying notes to the unaudited interim consolidated financial statements.*

**ROCK ENERGY INC.**Interim Consolidated Statements of Loss, Comprehensive Loss and Deficit  
(*unaudited*)

(all amounts in \$'000 except per share amounts)	<b>Three Months Ended June 30, 2010</b>	Three Months Ended June 30, 2009	<b>Six Months Ended June 30, 2010</b>	Six Months Ended June 30, 2009
<b>Revenues</b>				
Crude oil and natural gas	\$ 15,285	\$ 11,621	\$ 32,125	\$ 23,304
Royalties	(1,716)	(1,563)	(4,899)	(4,178)
	<b>13,569</b>	10,058	<b>27,226</b>	19,126
<b>Expenses</b>				
Operating	5,725	3,755	10,920	7,993
General and administrative	1,286	781	2,459	1,434
Interest	254	277	449	535
Stock-based compensation (note 4)	174	624	320	813
Depletion, depreciation and accretion	6,941	6,695	13,711	14,316
	<b>14,380</b>	12,132	<b>27,859</b>	25,091
Loss before income taxes	(811)	(2,074)	(633)	(5,965)
<b>Taxes</b>				
Provincial capital taxes	77	50	152	73
Future income tax reduction (note 7)	(287)	(379)	(237)	(2,032)
Net loss and comprehensive loss	(601)	(1,745)	(548)	(4,006)
Retained earnings (deficit), beginning of period	(2,257)	1,703	(2,310)	3,964
Deficit, end of period	\$ (2,858)	\$ (42)	\$ (2,858)	\$ (42)
Basic and diluted loss per share (note 3)	\$ (0.02)	\$ (0.07)	\$ (0.02)	\$ (0.15)

*See accompanying notes to the unaudited interim consolidated financial statements.*

**ROCK ENERGY INC.**Interim Consolidated Statements of Cash Flows  
(*unaudited*)

(all amounts in \$'000)	<b>Three Months Ended June 30, 2010</b>	Three Months Ended June 30, 2009	<b>Six Months Ended June 30, 2010</b>	Six Months Ended June 30, 2009
Cash provided by (used in):				
<b>Operating:</b>				
Net loss	\$ (601)	\$ (1,745)	\$ (548)	\$ (4,006)
Add (less) non-cash items:				
Depletion, depreciation and accretion	6,941	6,695	13,711	14,316
Stock-based compensation	230	624	320	813
Future income tax reduction	(287)	(379)	(237)	(2,032)
Asset retirement expenditures	(76)	-	(119)	-
	<b>6,207</b>	5,195	<b>13,127</b>	9,091
Changes in non-cash working capital	<b>(2,358)</b>	(4,166)	<b>(1,357)</b>	(3,137)
	<b>3,849</b>	1,029	<b>11,770</b>	5,954
<b>Financing:</b>				
Issuance of common shares	349	226	349	226
Repurchase of stock options	(688)	(2)	(696)	(2)
Increase in bank debt	6,436	735	12,302	1,577
	<b>6,097</b>	959	<b>11,955</b>	1,801
<b>Investing:</b>				
Property, plant and equipment	(7,082)	(2,095)	(20,678)	(5,469)
Changes in non-cash working capital	(2,864)	107	(3,047)	(2,286)
	<b>(9,946)</b>	(1,988)	<b>(23,725)</b>	(7,755)
Change in cash	-	-	-	-
Cash at beginning and end of period	\$ -	\$ -	\$ -	\$ -
<b>Interest and cash taxes paid and received:</b>				
Interest paid	\$ 311	\$ 277	\$ 511	\$ 535
Cash taxes paid	\$ 66	\$ -	\$ 110	\$ -

*See accompanying notes to the unaudited interim consolidated financial statements.*

## Notes to the Interim Consolidated Financial Statements

### For the Period Ended June 30, 2010 (all amounts in \$'000 except per share amounts) (unaudited)

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, 2009. 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, 2009. 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. Property, Plant and Equipment

	June 30, 2010	December 31, 2009
Petroleum and natural gas properties	\$ 245,971	\$ 224,291
Office Equipment	1,514	1,511
	\$ 247,485	\$ 225,802
Accumulated depletion and depreciation	(105,618)	(92,149)
	\$ 141,867	\$ 133,653

At June 30, 2010, the depletable base for the petroleum and natural gas properties included \$20,622 (December 31, 2009 – \$14,628) of future development costs and excluded \$16,653 (December 31, 2009 – \$17,860) of unproved property costs.

During the six months ended June 30, 2010, \$849 (June 30, 2009 – \$752) of administrative costs and \$177 (June 30, 2009 – nil) of stock based compensation costs relating to exploration and development activities were capitalized as part of property, plant and equipment.

#### 2. 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 June 30, 2010 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 natural gas prices received are referenced in U.S. dollar-denominated prices. As of June 30, 2010 the Company did not have any foreign currency exchange contracts in place.

##### Credit Risk:

Substantially all of the Company’s accounts receivable are with customers, joint interest partners and oil and natural gas marketers and are subject to normal industry credit risks. Receivables from customers, joint interest partners and oil and natural gas marketers 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 whenever 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 natural gas marketers are normally collected on the 25<sup>th</sup> day of the month following production. To mitigate the risk on these receivables the Company will predominately establish relationships with large marketers that have strong credit ratings and solid reputations. Historically, the Company has not experienced any issues in collecting from its oil and natural gas marketers. As at June 30, 2010 the Company’s receivables consisted of \$439 (December 31, 2009 – \$637) from joint interest partners, \$6,249 (December 31, 2009 – \$5,377) from oil and natural gas

marketers, \$5,146 (December 31, 2009 –\$3,786) of drilling incentive credits and \$381 (December 31, 2009 – \$955) of other trade receivables. Subsequent to June 30, 2010, the Company received \$2,374 of drilling incentive credits.

#### 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.

CICA Handbook Section 3862 "Financial Instruments – Disclosure" require the Company to present information about financial instruments measured at fair value in accordance with a three level hierarchy. The hierarchy groups financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels;

- Level 1 – quoted prices are available in active markets for identical assets or liabilities;
- Level 2 – pricing inputs other than quoted prices in active markets included in level 1, which are observable either directly and/or indirectly; and
- Level 3 – inputs for the asset or liability that are not based on observable market data.

As at June 30, 2010, the Company does not have any instrument that is subject to valuation through the hierarchy.

#### 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 June 30, 2010. A one percent change to the floating short-term interest rates is estimated to result in a \$62 change in net income for the second quarter of 2010.

### 3. Share Capital and Contributed Surplus

#### Authorized:

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

#### Common Shares Issued:

	Number	Amount
Issued and outstanding on December 31, 2008	25,899,843	\$ 81,600
Issued for flow-through shares <sup>(i)</sup>	300,000	219
Issued on exercise of stock options	7,400	11
Issued for cash on equity financing <sup>(ii)</sup>	4,350,000	15,225
Share issue costs (net of future income taxes of \$292)	-	(830)
Issued and outstanding on December 31, 2009	30,557,243	\$ 96,225
Issued on exercise of stock options	251,685	349
Future tax effect of flow-through share renouncements	-	(57)
Issued and outstanding on June 30, 2010	30,808,928	\$ 96,517

<sup>(i)</sup> The Company issued flow-through shares to a new management appointee in April 2009.

<sup>(ii)</sup> The Company completed an equity financing on October 29, 2009 of 4,350,000 common shares at \$3.50 per share for gross proceeds of \$15,225 (net proceeds of \$14,103).

#### Per Share Amounts:

Per share amounts have been calculated on the weighted average number of shares outstanding. The weighted average number of common shares outstanding for the three month period ended June 30, 2010 was 30,590,799 (June 30, 2009 – 26,157,555) and 30,574,114 (June 30, 2009 – 26,029,411) for the six months ended June 30, 2010.

In computing the diluted per share amount, the treasury method was used. For the three and six month period ended June 30, 2010 on a diluted basis there were 31,524,945 and 31,567,776 weighted average shares outstanding (June 30, 2009 – 26,165,392 and 26,029,411) after giving effect to dilutive 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 percent 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 vests yearly in one-third tranches beginning on the first anniversary of the grant date and expires one year after vesting. The following table summarizes the stock options outstanding at June 30, 2010;

	Number of Options	Weighted Average Exercise Price
December 31, 2008	1,744,204	\$ 3.09
Granted	1,615,399	1.03
Exercised <sup>(i)</sup>	(50,985)	1.38
Forfeited	(302,676)	2.50
Cancelled	(1,367,028)	3.15
Expired	(46,666)	4.79
December 31, 2009	1,592,248	\$ 1.06
Granted	1,009,800	4.21
Exercised <sup>(ii)</sup>	(388,321)	0.88
Forfeited	(203,599)	1.14
June 30, 2010	2,010,128	\$ 2.67

<sup>(i)</sup> 43,585 options were put back to the Company for the in-the-money gain.

<sup>(ii)</sup> 136,636 options were put back to the Company for the in-the-money gain.

Options outstanding and exercisable under the stock option plan are summarized below as at June 30, 2010:

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	738,662	\$ 0.87	2.09	81,719	\$ 0.85
\$1.61 - \$2.09	279,666	\$ 1.91	2.06	-	-
\$4.06 - \$4.62	991,800	\$ 4.21	2.77	-	-
	2,010,128	\$ 2.67	2.42	81,719	\$ 0.85

#### Contributed Surplus:

	Six Months Ended June 30, 2010	Year Ended December 31, 2009
Opening balance	\$ 4,553	\$ 3,458
Stock-based compensation expense	496	1,180
Net benefit on options exercised <sup>(i)</sup>	(695)	(85)
Closing balance	\$ 4,354	\$ 4,553

<sup>(i)</sup> The benefit of options exercised for shares are recorded as a reduction of contributed surplus and an increase to share capital.

#### 4. Stock Based Compensation

Options granted to employees and non-employees are accounted for using the fair value method. The fair value of 1,009,800 common share options granted during the six months ended June 30, 2010 was estimated to be \$2,221. 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 for options issued during the period ended June 30, 2010:

Risk free interest rate (%)	2.1%
Expected life (years)	3.0
Expected volatility (%)	83.0%
Expected dividend yield (%)	0.0%
Weighted average fair value per share (\$)	\$2.24

## 5. 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 crude oil and natural gas properties. The limit under the facility at June 30, 2010 was \$50 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 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 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 review for the facility is to be completed by the end of August, 2010.

## 6. Asset Retirement Obligation (ARO)

The ARO results from net ownership interests in petroleum and natural gas assets including well sites, gathering systems and processing facilities. The Company estimates the total undiscounted amount of cash flows required to settle its ARO at June 30, 2010 to be approximately \$13,959 (December 31, 2009 – \$12,459) including expected annual inflation of 1.5 percent (December 31, 2009 – 1.5 percent). A credit-adjusted risk-free rate of 8 percent (December 31, 2009 – 8 percent) was used to calculate the fair value of the ARO. These obligations are expected to be incurred from the current year through 2028 and are expected to be funded through general corporate funds at the time of retirement.

The following table outlines a reconciliation of the ARO:

	Six Months Ended June 30, 2010	Year Ended December 31, 2009
Opening balance	\$ 7,533	\$ 4,497
Liabilities incurred	790	390
Accretion	242	262
Revisions	39	2,496
Actual retirement expenditures	(119)	(112)
Closing balance	\$ 8,485	\$ 7,533

<sup>(i)</sup> Revisions to the ARO are a result of changes in current estimates of future abandonment costs.

## 7. Income Taxes

The provision for income taxes varies from the amount that would be computed by applying the expected tax rate to loss before income taxes. The principal reasons for differences between such "expected" income tax expense and the amount actually recorded are as follows:

	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Income (loss) before income taxes	\$ (633)	\$ (5,965)
Statutory income tax rate	28.4%	29.8%
Expected income taxes (reduction)	(179)	\$ (1,778)
Add (deduct):		
Stock-based compensation	75	242
Change in rate and estimated tax pools	(91)	(476)
Other	(42)	(20)
Future income taxes (reduction)	\$ (237)	\$ (2,032)

## 8. Commitments

The Company has the following obligations with fixed terms:

	2010	2011	2012
Office lease premises	\$261	\$523	\$349
Processing arrangements	\$139	\$230	\$159

## 9. 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 to be components of its capital base. The Company can access or increase capital through the issuance of shares, through bank borrowings, which 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 not to exceed 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 June 30, 2010 the Company's debt to second quarter annualized funds flow ratio was 1.3:1.

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 June 30, 2010.

## Corporate Information

### BOARD OF DIRECTORS

Stuart G. Clark <sup>(1) (2) (3)</sup>  
Chairman of the Board  
Independent Businessman  
Calgary, Alberta

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

Malcolm T. D. Adams <sup>(2) (4)</sup>  
Vice President Corporate Development  
Zapata Energy Corp.  
Calgary, Alberta

Kenneth H. F. Severs <sup>(4)</sup>  
President  
Charob Resources Inc.  
Calgary, Alberta

James K. Wilson <sup>(2) (3)</sup>  
Vice President, Finance and  
Chief Financial Officer  
Grizzly Resources Ltd.  
Calgary, Alberta

William H. Slavin <sup>(3) (4)</sup>  
Managing Director  
ARC Financial Corp.  
Calgary, Alberta

<sup>(1)</sup> Chairman of the Board

<sup>(2)</sup> Member of the Audit Committee

<sup>(3)</sup> Member of the Compensation,  
Nomination and Governance  
Committee

<sup>(4)</sup> Member of the Reserves Committee

### OFFICERS

Allen J. Bey  
Chief Executive Officer

John H. Van de Pol  
President and  
Chief Financial Officer

Jeffrey G. Campbell  
Senior Vice President and  
Chief Operating Officer

Grant A. Zawalsky  
Corporate Secretary

### AUDITORS

KPMG LLP

### BANK

National Bank of Canada

### SOLICITORS

Burnet, Duckworth & Palmer LLP

### STOCK EXCHANGE LISTING: TSX

Stock Symbol: RE

### ENGINEERING CONSULTANT

GLJ Petroleum Consultants Ltd.

### REGISTRAR & TRANSFER AGENT

Alliance Trust Company  
Suite 450 407 2<sup>nd</sup> Street S.W.  
Calgary, Alberta T2P 2Y3  
Telephone: (403) 237-6111

### WEBSITE

[www.rockenergy.ca](http://www.rockenergy.ca)

### EXECUTIVE OFFICE

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## ABBREVIATIONS

bbl	barrel(s)	mbbls	thousand barrels
bcf	billion cubic feet	mboe	thousand barrels of oil equivalent
boe	barrels of oil equivalent	mboe/day	thousand barrels of oil equivalent per day
bps	basis points	mcf	thousand cubic feet
CDOR	Certificate of Deposit Offered Rate	mmcf	million cubic feet
GJ	gigajoule	mmbbls	million barrels
hectare	1 hectare is equal to 2.47 acres	mmboe	million barrels of oil equivalent
km	kilometer	WTI	West Texas Intermediate
NGL	natural gas liquids	WCS	Western Canadian Select