**rockenergy** — Our Reach Is Within Our Grasp

# 2011 First Quarter Report

For the Three Months Ended March 31, 2011

WHERE WE STARTED — WHERE WE ARE — WHERE WE'RE GOING

TSX: RE

## CORPORATE SUMMARY

| FINANCIAL | | Three Months Ended March 31, 2011 | | Three Months Ended March 31, 2010 [2] |
|---|---|---|---|---|
| Crude oil and natural gas revenue ('000) | $ | **16,062** | $ | 16,840 |
| Funds from operations ('000) [1] | $ | **4,452** | $ | 6,963 |
| Per share - basic | $ | **0.14** | $ | 0.23 |
| - diluted | $ | **0.13** | $ | 0.22 |
| Net income ('000) | $ | **720** | $ | 1,279 |
| Per share - basic | $ | **0.02** | $ | 0.04 |
| - diluted | $ | **0.02** | $ | 0.04 |
| Capital expenditures, net ('000) | $ | **19,835** | $ | 13,665 |

| | | As at March 31, 2011 | | As at March 31, 2010 |
|---|---|---|---|---|
| Working capital (deficiency) including bank debt and excluding commodity price contracts ('000) | $ | **(47,549)** | $ | (32,016) |
| Common shares outstanding | | **32,774,180** | | 30,557,243 |
| Options outstanding | | **2,899,995** | | 1,718,881 |

| OPERATIONS | | Three Months Ended March 31, 2011 | | Three Months Ended March 31, 2010 |
|---|---|---|---|---|
| **Average daily production** | | | | |
| Crude oil and natural gas liquids (bbls/d) | | **2,609** | | 2,281 |
| Natural gas (mcf/d) | | **5,268** | | 7,458 |
| Total (boe/d) | | **3,487** | | 3,524 |
| **Average product prices** | | | | |
| Crude oil and natural gas liquids (Cdn$/bbl) | $ | **60.45** | $ | 65.16 |
| Natural gas (Cdn$/mcf) | $ | **3.94** | $ | 5.16 |
| Combined (Cdn$/boe) | $ | **51.18** | $ | 53.09 |
| Field netback (Cdn$/boe) [1] | $ | **20.03** | $ | 26.44 |

**Note [1] Funds from operations, funds from operations per share and field netback are not terms prescribed by IFRS or the previous Canadian generally accepted accounting principles (Canadian GAAP), so are considered non-GAAP measures. 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.**

**Note [2] Net income for the three months ended March 31, 2010 has been restated for the effect of adopting IFRS. Further information on the IFRS impacts is provided in the Change in Accounting Policies Section of this MD&A.**

## LETTER TO THE SHAREHOLDERS

During the first quarter of 2011 Rock focused its operating activity on liquids rich natural gas reserve additions at Elmworth in West Central Alberta. The quarter was highlighted by the following:

- Drilled 2 (1.5 net) successful natural gas wells including a 50% working interest Montney horizontal natural gas well at Elmworth and a 100% working interest well at Saxon;
- Successfully tested a 100% working interest Montney vertical natural gas well on our South Elmworth lands that confirmed the existence of Montney natural gas reserves in both the B and C zones:
- Drilled 11 (11.0 net) heavy oil wells with a 92% success rate of which 10 (10.0 net) will be completed and on production by the end of the second quarter of 2011;
- The Company's net undeveloped land position increased by 6% to 97,217 net acres;
- The inventory of heavy oil drilling locations in the Plains area was expanded to 190 locations from 170 locations as at December 31, 2010;
- Completed the acquisition of 250 barrels per day of 99% working interest heavy oil assets and the disposition of approximately 250 boe per day of low working interest non-operated natural gas production;
- Production averaged 3,487 boe per day (75% crude oil and natural gas liquids and 25% natural gas) which was impacted by a shutdown of the third party SemCAMS K3 plant which shut-in approximately 600 boe per day of the Company's production in March 2011;
- Spent $19.8 million (including acquisitions and net of dispositions) on an extensive capital expenditure program on first quarter initiatives; and
- Generated funds from operations for the quarter of $4.5 million ($0.14/share).

Rock's daily production for the first quarter of 2011 averaged 3,487 boe per day as it was adversely affected by continued performance issues on a number of heavy oil wells and by the shutdown of the SemCAMS K3 plant in March. Normal operations at the SemCAMS K3 plant resumed in mid April 2011 but were shutdown again on May 5, 2011 for an initially anticipated timeframe of 7 to 10 days. Rock subsequently received notice from SemCAMS on May 10, 2011 that the shutdown could extend for an additional 4 to 8 weeks. As a result, production is currently estimated to be approximately 3,000 boe per day with approximately 600 boe per day of production shut-in associated with the K3 plant shut down.

Rock is planning a capital program for 2011 that includes drilling an additional 29 heavy oil wells in the Plains region and an additional five natural gas wells in the West Central Alberta core area. Rock expects daily production to reach 4,500 – 4,900 boe per day by year end with a product mix that is expected to be 73% crude oil and natural gas liquids.

Financially, Rock generated funds from operations of $4.5 million ($0.14 per basic share) in the first quarter of 2011 and net income of $0.7 million. Funds from operations for the quarter were adversely affected by lower production levels and higher operating costs.

Rock generated a field netback of $20.03 per boe in the first quarter of 2011 compared to $26.44 per boe in the first quarter of 2010. Field netbacks for 2011 were significantly impacted by a reduction in realized prices and increased operating costs. Rock's realized price in the first quarter of 2011 was $51.18 per boe compared to $53.09 per boe in the first quarter of 2010. The decrease in price realizations can be attributed to the decrease in natural gas prices as the increase in posted crude oil prices was offset by widening heavy oil differentials. Increased operating costs were due to a higher level of fuel usage and increased well servicing activity in our heavy oil operations. Operating costs per boe increased to $21.79 per boe in the first quarter of 2011 compared to $16.38 per boe in the first quarter of 2010. With anticipated increases in average production throughout 2011, fuel gas initiatives and anticipated reductions in workovers and product handling costs, operating costs per boe are expected to decrease to a range of approximately $19.00 per boe to $19.50 per boe by the fourth quarter of 2011.

Net capital expenditures for the first quarter of 2011 were $19.8 million (including acquisitions and net of dispositions) and total net debt at the end of the quarter was $47.5 million. Subsequent to March 31, 2011, Rock announced a $30 million bought deal financing of 4,000,000 common shares at an issue price of $5.00 per Common Share and 1,640,000 common shares to be issued on a "flow-through" basis at an issue price of $6.10 per Flow-Through Common Share. In addition, Rock announced that the Company's bank facility was expanded to $65 million from $50 million which will support an expanded capital program for 2011. The Company is in a strong financial position with a foundation of funds flow and excess debt capacity to execute our planned expanded 2011 capital program.

Rock's Board of Directors has approved an increase in the capital budget from $52 million to $77 million for 2011. The success of our liquids rich natural gas initiatives at Elmworth in West Central Alberta in 2010 and the first quarter of 2011 have exceeded our expectations and have confirmed the existence of deeper Montney natural gas reserves on our lands. Rock will continue defining our Elmworth natural gas resource play and is proceeding with an accelerated exploitation program including horizontal drilling using multistage fracturing techniques.

The expanded capital program for 2011 includes an acceleration of capital spending on the Company's Montney resource project at Elmworth. The Company plans to drill a 100% working interest horizontal well in North Elmworth, a 100% working interest horizontal well in South Elmworth, and three 100% vertical stratigraphic test wells in South Elmworth and incur initial expenditures for related pipeline and processing facilities.

**Area Activity Update**

To date in 2011, Rock has drilled 11 (11.0 net) heavy oil wells as part of a planned 40-well program for the year that is expected to provide growth in our 2011 crude oil production.

Rock completed the acquisition of 250 barrels per day of 99% working interest heavy oil assets in the Plains core area for $12.8 million. Rock has identified up to 10 drilling locations on these newly acquired lands and plans to initiate a waterflood project to increase the recovery factor on the acquired assets. Rock funded the majority of the heavy oil acquisition through the completed disposition of 250 boe per day of low working interest non-operated natural gas production in the Cutbank area for $10.5 million.

The Company has drilled 3 (2.5 net) successful natural gas wells to date, including a second 100 percent working interest Montney vertical test well (13-12-68-10W6M) at South Elmworth that was drilled and cased in April 2011. The test well encountered 23 metres of pay in the Montney B zone, 22 metres of pay in the Montney C zone and 6 metres of pay in the Halfway zone. The well will be completed and fracture stimulated subsequent to break-up and tested early in the third quarter of 2011. This well result has further confirmed the extension of Montney natural gas reserves (both B and C zones) on Rock's South Elmworth lands.

**Executive Appointment**

Rock is also pleased to announce the appointment of Greg Schmidt as Vice President Operations effective May 11, 2011, reporting to Jeffrey G. Campbell, Senior Vice-President and Chief Operating Officer. Greg will have the responsibility of leading the Company's operations team including drilling operations, field operations, facilities, safety and exploitation initiatives on Rock's strong portfolio of internally generated heavy oil and Deep Basin Montney natural gas opportunities. Initially, Greg's team will focus on heavy oil production optimization, operating cost improvements and the development of pipeline and processing facilities at Elmworth.

**Outlook**

With reduced first quarter production volumes and the unanticipated additional third party production disruptions in the second quarter, Rock is reducing its previously announced production and related cash flow guidance. Revised guidance now anticipates that average production will be between 3,800 and 4,200 boe per day in 2011 from previous estimates of between 4,000 and 4,400 boe per day while maintaining its previously announced guidance for exit production of 4,500 to 4,900 boe per day. Assuming the closing of the $30 million equity financing on May 19, 2011 and that crude oil prices average US $95.00 WTI per barrel for the remainder of 2011 and natural gas at AECO averages $4.00 CDN/mcf with an exchange rate of $1.03 CDN$/US$ the Company would generate cash flow of $30 million (or $0.82/share) and have year-end 2011 net debt of approximately $51 million.

To date this year, we have focussed on proving up the emerging resource play at Elmworth. During the second and third quarters of this year we will be building our heavy oil production base and cash flow. During the latter part of 2011, Rock intends to bring its liquids-rich natural gas projects at Elmworth on-stream under the first phase of its long-term development plan.

Rock has developed an inventory of approximately 190 heavy oil drilling opportunities and 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 in 2012 and beyond.

On behalf of the Board of Directors,

(Signed) "Allen J. Bey"

(Signed) "John H. Van de Pol"

May 10, 2011

**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 funds from operations, field netbacks 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 financial contribution of crude 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 brings reserves on-stream on a per-unit basis, providing insight into the relative efficiency of capital investments.

Rock faces competition in the oil and gas industry for resources, including technical personnel and third-party services and capital financing. The Company is addressing these issues through the addition of personnel with the expertise to develop opportunities on existing lands and 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 May 10, 2011 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 unaudited Interim Consolidated Financial Statements for the period ended March 31, 2011 as well as the audited consolidated financial statements for the year ended December 31, 2010.

**Basis of Presentation**

The Interim Consolidated Financial Statements and comparative information have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The Company adopted IFRS on January 1, 2011 with a transition date of January 1, 2010. Previously, Rock prepared its Interim Consolidated Financial Statements in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP"). The Company has provided IFRS accounting policies and prepared reconciliations between Canadian GAAP and IFRS in Note 3 and 17 of its March 31, 2011 Interim Consolidated Financial Statements. Further information on the IFRS impacts is provided in the Change in Accounting Policies Section of this MD&A.

Certain financial measures referred to in this discussion, such as funds from operations and funds from operations per share, are not prescribed by IFRS and previous Canadian GAAP in Canada. Funds from operations is a key measure that demonstrates the ability to generate cash to fund expenditures. Funds from operations are 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 are calculated using the same methodology for determining net income (loss) per share. Rock's use of these non prescribed 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 IFRS. The reconciliation between funds from operations and cash flow from operations for the three months ended March 31, 2011 and 2010 is presented in the table below.

| ('000) | **Three Months Ended 03/31/11** | Three Months Ended 03/31/10 |
|---|---|---|
| Cash from operating activities | **$ 2,130** | $ 7,921 |
| Add (deduct): | | |
| Changes in non-cash working capital | **2,339** | (1,001) |
| Asset retirement (expenditures) recoveries | **(17)** | 43 |
| Funds from operations | **$ 4,452** | $ 6,963 |

Management uses certain industry benchmarks such as field netback to analyze financial and operating performance. Field netback has been calculated by taking crude oil and natural gas revenues less royalties, operating costs and transportation costs, resulting in an approximation of initial cash margin in the field on crude oil and natural gas production. This benchmark does not have a standardized meaning prescribed by IFRS and may not be comparable to similar measures presented by other companies. Management considers field netback an important measure to demonstrate profitability relative to commodity prices.

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 March 15, 2011 for projected 2011 results. The Company is updating its guidance at this time primarily to reflect the recently announced equity financing, changes in production levels, changes in commodity prices and exchange rates. The Company has prepared a budget based on $77 million of capital expenditures, which will be primarily funded by expected funds from operations of $30 million and from the $30 million equity financing announced on April 29, 2011. Total year-end net debt is expected to be $51 million at a debt to annualized quarterly funds from operations ratio of approximately 1.3:1. The Company is well-positioned to monitor commodity prices and resulting funds flows and adjust our capital budget accordingly. Rock expects to drill 6 (5.5 net) natural gas wells in the West Central Alberta core area and 40 (40.0 net) heavy oil wells in the Plains core area.

Crude oil prices have been forecast to be US$95.00/bbl and natural gas prices have been forecast to average an AECO price of $4.00 per mcf in 2011. As a result of the increased pricing, royalty rates have been increased to approximately 19 percent. Forecasted operating costs have also increased to approximately $20.00 per boe for 2011 compared to $16.97 per boe in 2010. Other cash costs, including G&A costs and interest expense, are forecast to be comparable on a boe basis to those incurred in 2010.

The planned activities and assumptions outlined above result in a $77 million capital budget from which Rock is projecting 2011 annual production to increase by a range of 5 percent to 16 percent over average 2010 levels. Funds from operations of $30 million ($0.82 per basic share) are projected to increase by approximately 16 percent from 2010 levels due to higher commodity prices and production. Year-end net debt is projected to be $51 million with a debt to annualized fourth quarter funds from operations ratio of 1.0:1. The table below provides Rock's guidance.

| | | **May 10, 2011 Guidance** | | **March 15, 2011 Guidance** |
|---|---|---|---|---|
| 2011 production (boe/d) | | | | |
| Annual | | 3,800 – 4,200 | | 4,000 – 4,400 |
| Exit | | 4,500 – 4,900 | | 4,500 – 4,900 |
| 2011 funds from operations | | | | |
| Annual - $ | $ | 30 million | $ | 34 million |
| Annual - $ per basic share | $ | 0.82 | $ | 1.05 |
| 2011 capital budget | | | | |
| Expenditures | $ | 77 million | $ | 52 million |
| Wells Drilled | | 45 - 50 | | 45 - 50 |
| Total year-end net debt [(1)] | $ | 51 million | $ | 50 million |
| Pricing | | | | |
| Crude oil – W.T.I. | | US $95.00/bbl | | US $95.00/bbl |
| Heavy oil differentials | | US $16.00/bbl | | US $23.00/bbl |
| Natural gas – AECO | $ | 4.00/mcf | $ | 4.00/mcf |
| Cdn$/US$ exchange rate | $ | 1.03 | $ | 1.00 |

[(1)] Net debt is the working capital deficiency including bank debt and excluding commodity price contracts.

**Production**

| Production by Product | **Three Months Ended 03/31/11** | Three Months Ended 03/31/10 | Change |
|---|---|---|---|
| Heavy oil (bbls/d) | **2,383** | 1,953 | 22% |
| Light oil (bbls/d) | **83** | 105 | (21)% |
| Natural gas (mcf/d) | **5,268** | 7,458 | (29)% |
| Natural gas liquids (bbls/d) | **143** | 223 | (36)% |
| Total boe/d (6:1) | **3,487** | 3,524 | (1)% |

Production for the three months ended March 31, 2011 has decreased one percent over the same period last year due to production declines in natural gas and natural gas liquids offset by growth in heavy oil production. During the quarter, a significant mechanical failure had occurred at the SemCAMS K3 gas plant and gathering system. The K3 gas plant was completely shutdown and the Company was required to shut in approximately 600 boed of its Saxon natural gas and liquids production being processed at K3 for the month of March 2011. Normal operations resumed at the SemCAMS K3 plant and gathering system in mid April 2011 but were shutdown again on May 5, 2011 for an expected timeframe of up to 8 weeks.

Heavy oil production increases were primarily attributable to the successful heavy oil drilling program in 2010. Rock currently anticipates completing a 40 well heavy oil drilling program in the Plains area in 2011, 11 (11.0 net) of which were drilled in the first quarter of 2011.

**Product Prices**

| | **Three Months Ended 03/31/11** | Three Months Ended 03/31/10 | Change |
|---|---|---|---|
| Realized product prices | | | |
| Heavy oil ($/bbl) | **59.37** | 65.20 | (9)% |
| Light oil ($/bbl) | **84.53** | 79.25 | 7% |
| Natural gas ($/mcf) | **3.94** | 5.16 | (24)% |
| Natural gas liquids ($/bbl) | **64.34** | 58.11 | 11% |
| Combined average ($/boe) | **51.18** | 53.09 | (4)% |
| Cdn$/US$ exchange rate | **1.01** | 0.961 | 6% |
| Average reference prices | | | |
| Crude oil – W.T.I. Cushing, Oklahoma (US$/bbl) | **94.03** | 78.71 | 19% |
| Crude oil – Edmonton light (Cdn$/bbl) | **89.20** | 80.07 | 11% |
| Heavy oil – Western Canadian Select ("WCS") (Cdn$/bbl) | **70.21** | 72.54 | (3)% |
| Natural gas – Henry Hub Daily Spot (US$/mmbtu) | **4.18** | 5.14 | (19)% |
| Natural gas – AECO C Daily Spot (Cdn$/mcf) | **3.79** | 4.97 | (24)% |
| Differentials | | | |
| Realized heavy oil price to Edmonton light | **33%** | 19% | (74)% |
| Realized heavy oil price to WCS | **15%** | 10% | (50)% |

Crude oil and natural gas liquid commodity prices strengthened considerably during the three months ended March 31, 2011 compared to the same period in 2010. However, average heavy oil prices of $59.37 per boe for the first quarter of 2011were 9 percent lower compared to the same quarter of 2010. Although WTI crude oil prices have increased, the Company experienced a temporary widening of the heavy oil differential in the first quarter of 2011. Increased heavy oil differentials resulted from several operational issues experienced in the North American oil transportation and upgrading infrastructure. This resulted in an increase of heavy oil in Canada. With limited takeaway capacity, the heavy oil differential widened significantly driving heavy oil prices down. The Company experienced a 33 percent differential of corporate heavy oil price to Edmonton light. This widening was short lived as heavy oil differentials have returned to levels realized in 2010.

The current AECO natural gas prices is approximately $3.94 per mcf or 24 percent lower than the prior quarter of 2010. Futures market indicates that the AECO natural gas price is forecast at approximately $4.00 per mcf for the remainder of 2011.

Rock initiated a commodity price management program, effective January 1, 2011. The Company executed crude oil collars on an average of 1,100 bbls per day for 2011 and an average of 400 bbls per day for 2012 both with a floor price of US$80.00 per boe and a ceiling price of US$96.80 per boe. In addition, the Company also executed crude oil collars on an average of 400 bbls per day for the first three months of 2012 at a floor price of US$92.60 per boe with a ceiling price of US$109.60 and an average of 300 bbls per day for the first three months of 2013 at a floor price of US$90.00 per boe with a ceiling price of US$106.85.

**Revenue**

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

| | **Three Months Ended 03/31/11** | Three Months Ended 03/31/10 | Change |
|---|---|---|---|
| Crude oil and natural gas | **$ 16,062** | $ 16,840 | (5)% |

Crude oil and natural gas revenue decreased by five percent from the first quarter of 2011 to the same period of 2010. The decrease in revenue is the result of a one percent decrease in production and four percent decrease in product prices realized in the first quarter of 2011.

**Royalties**

| | **Three Months Ended 03/31/11** | Three Months Ended 03/31/10 | Change |
|---|---|---|---|
| Royalties | **$ 2,939** | $ 3,258 | (10)% |
| As a percentage of crude oil and natural gas revenue | **18.3%** | 19.3% | (5)% |
| Per boe (6:1) | **$ 9.36** | $ 10.27 | (9)% |

Royalties for the three months ended March 31, 2011 are lower on an absolute and per boe basis in comparison to the same quarter of 2010 as a result of decreased prices. On a percentage basis royalty rates were 18.3% of crude oil and natural gas revenue for the three months ended March 31, 2011 compared to 19.3% for the same period of 2010.

**Operating Expense**

| | **Three Months Ended 03/31/11** | Three Months Ended 03/31/10 | Change |
|---|---|---|---|
| Operating costs | **$ 6,720** | $ 5,073 | 32% |
| Transportation costs | **119** | 122 | (2)% |
| | **$ 6,839** | $ 5,195 | 32% |
| Per boe (6:1) | **$ 21.79** | $ 16.38 | 33% |

Operating expenses have increased on an absolute and boe basis during the three months ended March 31, 2011 over the same period in 2010 primarily due to an increase in well servicing, fuel costs and work-over costs on heavy oil wells. Operating costs per boe are expected to decrease for the remainder of 2011 and average approximately $20.00 per boe.

**Exploration and Evaluation Expense**

| | **Three Months Ended 03/31/11** | Three Months Ended 03/31/10 | Change |
|---|---|---|---|
| Exploration and Evaluation (1) | **$ -** | $ 430 | n/a |
| Per boe (6:1) | **$ -** | $ 1.36 | n/a |

*Note (1) Exploration and evaluation for the three months ended March 31, 2010 has been presented as a result of adopting IFRS with a transition date of January 1, 2010.*

The Company's exploration and evaluation expense represents all pre-license costs and the capitalized costs from exploration and evaluation assets that have been expensed. These costs represent unrecoverable exploration and evaluation costs associated with an area and costs incurred prior to obtaining the legal rights to explore. The costs included in exploration and evaluation expense include pre-license costs and land expiries. During the period ended March 31, 2011, there were no pre-license costs or book value for land expiries.

**General and Administrative (G&A) Expense**

| | Three Months Ended 03/31/11 | Three Months Ended 03/31/10 | Change |
|---|---|---|---|
| Gross | **$ 1,886** | $ 1,568 | 20% |
| Per boe (6:1) | **$ 6.01** | $ 4.95 | 21% |
| Capitalized | **$ 606** | $ 395 | 53% |
| Per boe (6:1) | **$ 1.93** | $ 1.25 | 54% |
| Net | **$ 1,280** | $ 1,173 | 9% |
| Per boe (6:1) | **$ 4.08** | $ 3.70 | 10% |
| Share based payments (net) [1] | **$ 280** | $ 144 | 94% |
| Per boe (6:1) | **$ 0.89** | $ 0.45 | 98% |
| Total G&A | **$ 1,560** | $ 1,317 | 18% |
| Per boe (6:1) | **$ 4.97** | $ 4.15 | 20% |

*[1] Share based payments for the three months ended March 31, 2010 was restated and reclassified for the effect of adopting IFRS.*

Gross and net G&A expenses increased on an absolute basis in the three months ended March 31, 2011 compared to the same period in 2010. Overall costs increased due to staffing increases and consulting costs associated with higher activity levels. On a per boe basis, G&A expenses were also impacted by the decrease 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 approximately $3.90 per boe for the year. The Company capitalizes direct G&A expenses based on personnel involved in exploration and development activities.

Share based payment 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. The Company capitalizes a portion of stock-based compensation expense related to personnel involved in exploration and development activities.

**Finance Expense**

| | Three Months Ended 03/31/11 | Three Months Ended 03/31/10 | Change |
|---|---|---|---|
| Interest expense | **$ 329** | $ 195 | 69% |
| Per boe (6:1) | **$ 1.05** | $ 0.61 | 72% |
| Accretion expense [1] | **$ 42** | $ 39 | 8% |
| Per boe (6:1) | **$ 0.13** | $ 0.12 | 8% |
| Finance expense | **$ 371** | $ 234 | 59% |
| Per boe (6:1) | **$ 1.18** | $ 0.73 | 62% |

*[1] Accretion for the three months ended March 31, 2010 was restated and reclassified for the effect of adopting IFRS.*

Interest incurred is as a result of bank borrowings. Interest expense has increased in the first quarter of 2011 compared to the same period in 2010 due to higher debt levels and higher interest rates. The average effective interest rate on debt for the first quarter of 2011 was 3.6 percent and the first quarter of 2010 was 3.0 percent.

Accretion represents the change in the time value of the decommissioning liability. Accretion expense increased for the three months ended March 31, 2011 compared to the same period of 2010 due to new obligations from wells drilled, acquisition of crude oil and natural gas assets, offset by the disposition of crude oil and natural gas interests. The underlying liability 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 future obligations.

**Depletion and Depreciation**

| | Three Months Ended 03/31/11 | Three Months Ended 03/31/10 | Change |
|---|---|---|---|
| Depletion and depreciation expense (1) | **$ 5,454** | $ 4,570 | 19% |
| Per boe (6:1) | **$ 17.38** | $ 14.41 | 21% |

*(1) Depletion and depreciation for the three months ended March 31, 2010 was restated for the effect of adopting IFRS.*

Depletion and depreciation expense is computed on a unit of production basis. Such expense, on a boe basis, fluctuates period to period primarily as a result of changes in the underlying proved and probable reserves base and in the amount of costs subject to depletion and depreciation. Such costs are segregated and depleted on an area by area basis relative to the respective underlying proved and probable reserves base. The depletion and depreciation expense for the three months ended March 31, 2011 was higher on both an absolute basis and boe basis than in the first quarter of 2010. The increase is the result of higher capital and future development costs subject to depletion, offset by the higher additions to the proved and probable reserves base.

**Taxes**

Rock does not have current income tax payable and does not expect to pay current income taxes in 2011 as the Company has estimated resource tax pools available at March 31, 2011 of $138.0 million.

**Funds from Operations and Net Income (Loss)**

| | Three Months Ended 03/31/11 | Three Months Ended 03/31/10 | Change |
|---|---|---|---|
| Funds from operations | **$ 4,452** | $ 6,963 | (36)% |
| Per boe (6:1) | **$ 14.19** | $ 21.95 | (35)% |
| Per share | | | |
| Basic | **$ 0.14** | $ 0.23 | (39)% |
| Diluted | **$ 0.13** | $ 0.22 | (41)% |
| | | | |
| Cash provided by operating activities | **$ 2,130** | $ 7,921 | (73)% |
| | | | |
| Net income (loss) (1) | **$ 720** | $ 1,279 | (44)% |
| Per boe (6:1) | **$ 2.29** | $ 4.03 | (43)% |
| Per share | | | |
| Basic | **$ 0.02** | $ 0.04 | (50)% |
| Diluted | **$ 0.02** | $ 0.04 | (50)% |
| | | | |
| Weighted average shares outstanding: | | | |
| Basic | **32,759,421** | 30,557,243 | 7% |
| Diluted | **33,662,091** | 31,595,724 | 7% |

Note (1) Net income for the three months ended March 31, 2010 was restated for the effect of adopting IFRS.

Funds from operations decreased over the prior year period due to lower production, lower commodity prices and higher operating costs. Cash provided by operating activities has also decreased for the three months ended March 31, 2011 as a result of decreased production, commodity prices, operating costs and changes in non-cash working capital accounts. The Company generated net income for the first quarter of 2011 of $720 compared to a net income of $1,279 during the three months ended March 31, 2010. The decrease in net income is the result of higher than anticipated operating costs, lower commodity prices and an unrealized loss on commodity price contracts of $4.3 million, offset by a gain on sale of property, plant and equipment of $7.0 million. Basic and diluted shares outstanding have increased due to the flow-through equity issue of 1,855,000 shares completed in November 2010 and dilutive stock options.

**Capital Expenditures**

| | Three Months Ended 03/31/11 | Three Months Ended 03/31/10 | Change |
|---|---|---|---|
| Seismic | $ - | $ 433 | n/a |
| Drilling and completions | 8,391 | 12,880 | (35)% |
| Facilities | 919 | 899 | 2% |
| Capitalized G&A | 606 | 395 | 53% |
| Capitalized stock –based compensation | 163 | 69 | 136% |
| | $ 10,079 | $ 14,676 | (31)% |
| Property acquisition | 12,828 | - | n/a |
| Property disposition | (11,559) | - | n/a |
| Drilling incentive credits | - | (1,325) | n/a |
| Total property, plant and equipment | $ 11,348 | $ 13,351 | (15)% |
| Land | 1,497 | 314 | 377% |
| Seismic | 286 | - | n/a |
| Exploratory drilling and completions | 6,704 | - | n/a |
| Total exploration and evaluation | $ 8,487 | $ 314 | 2603% |
| Total net capital expenditures | $ 19,835 | $ 13,665 | 45% |

Capital spending in the first quarter of 2011 was significantly higher than the first quarter of 2010 due to increased exploration drilling activity. Exploration and evaluation costs are area expenditures where technical feasibility and commercial viability has not yet been determined. These costs include undeveloped lands, geological and geophysical costs, exploration and evaluation drilling and completion costs. Costs incurred prior to acquiring the legal rights to explore are expensed as incurred. Exploration and evaluation expenditures increased as a result of exploratory drilling and completion in the Company's Elmworth area. During the quarter, the Company drilled one (0.5 net) horizontal Montney well (13-7-71-9W6M) in Elmworth.

In additional to the exploratory drilling program, the Company drilled 11 (11.0 net) heavy oil wells in the Plains core area and one (1.0 net) natural gas wells in the Saxon area compared to 11 (11.0 net) heavy oil wells and 5 (3.2 net) wells in the West Central Alberta area in the same period of 2010. During the quarter, the Company also acquired heavy oil assets for $12.8 million and disposed of certain non-core conventional oil and gas assets for net proceeds of $11.6 million.

**Liquidity and Capital Resources**

Rock currently forecasts a capital expenditure program for 2011 of $77 million against anticipated funds from operations of $30 million. The capital spending is in excess of funds from operations and, therefore, additional financing sources will be required. These additional sources include available credit facilities, equity financing and property dispositions. There is no assurance that debt and equity financing or dispositions will be available on terms acceptable to the Company to meet its capital requirements. The Company has a net debt position of $47.5 million including a negative working capital position of $3.5 million at March 31, 2011. The Company's total debt to first quarter 2011 annualized funds from operations ratio was 2.7 to 1. This ratio has temporarily exceeded the Company's desired level due to significant first quarter capital expenditures. After applying the recently announced $30 million bought deal financing and including planned spending, this ratio is forecasted to fall to annualized quarterly funds from operations ratio of 1.3 to 1 by December 31, 2011. The Company expects to have a net debt position of approximately $51 million by the end of 2011. 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 2011 that established the available facility at $65 million. The next review for the facility is scheduled to be completed by August, 2011.

**Selected Quarterly Data** ***(unaudited)***

The following table provides selected quarterly information for Rock.

| | | | | | | 2009 – Canadian GAAP [v] | | |
|---|---|---|---|---|---|---|---|---|
| | **Three Months Ended 03/31/11** | Three Months Ended 12/31/10 | Three Months Ended 09/30/10 | 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 |
| Production (boe/d) | **3,487** | 3,472 | 3,739 | 3,720 | 3,524 | 3,376 | 3,225 | 3,329 |
| Crude oil and natural gas revenues ($000) | **$ 16,062** | $ 15,732 | $ 15,497 | $ 15,285 | $ 16,840 | $ 14,597 | $ 12,124 | $ 11,621 |
| Average realized price ($/boe) | **$ 51.18** | $ 49.26 | $ 45.05 | $ 45.15 | $ 53.09 | $ 47.00 | $ 40.84 | $ 38.37 |
| Royalties ($/boe) | **$ 9.36** | $ 7.28 | $ 6.74 | $ 5.30 | $ 10.27 | $ 8.37 | $ 7.96 | $ 5.16 |
| Operating Expense ($/boe) | **$ 21.79** | $ 18.71 | $ 15.98 | $ 16.91 | $ 16.38 | $ 14.49 | $ 14.50 | $ 12.40 |
| Field netback ($/boe) [ii] | **$ 20.03** | $ 23.27 | $ 22.33 | $ 22.94 | $ 26.44 | $ 24.14 | $ 18.38 | $ 20.81 |
| G&A expense ($/boe) | **$ 4.08** | $ 2.97 | $ 2.54 | $ 3.80 | $ 3.70 | $ 3.20 | $ 2.51 | $ 2.58 |
| Interest expense ($/boe) | **$ 1.05** | $ 0.91 | $ 0.89 | $ 0.75 | $ 0.62 | $ 0.70 | $ 0.95 | $ 0.92 |
| Funds from Operations ($000) [i] | **$ 4,452** | $ 6,189 | $ 6,506 | $ 6,283 | $ 6,963 | $ 6,150 | $ 4,403 | $ 5,195 |
| Per share | | | | | | | | |
| Basic | **$ 0.14** | $ 0.19 | $ 0.21 | $ 0.21 | $ 0.23 | $ 0.21 | $ 0.17 | $ 0.20 |
| Diluted | **$ 0.13** | $ 0.19 | $ 0.21 | $ 0.20 | $ 0.22 | $ 0.20 | $ 0.16 | $ 0.20 |
| Net income (loss) ($000) [iii] | **$ 720** | $ (2,153) | $ 873 | $ 850 | $ 1,279 | $ (556) | $ (1,712) | $ (1,745) |
| Per share | | | | | | | | |
| Basic | **$ 0.02** | $ (0.07) | $ 0.03 | $ 0.03 | $ 0.04 | $ (0.02) | $ (0.07) | $ (0.07) |
| Diluted | **$ 0.02** | $ (0.07) | $ 0.03 | $ 0.03 | $ 0.04 | $ (0.02) | $ (0.07) | $ (0.07) |
| Capital expenditures | **$ 19,835** | $ 12,119 | $ 9,320 | $ 7,188 | $ $13,665 | $ 10,424 | $ 4,599 | $ 2,095 |
| | **As at 03/31/11** | As at 12/31/10 | As at 09/30/10 | 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 |
| Working capital deficiency (surplus) [iv] | **$ 3,468** | $ 7,806 | $ 495 | $ (2,069) | $ 3,153 | $ 2,335 | $ (2,485) | $ (975) |

[i] Funds from operations is calculated as cash generated from operating activates before changes in non-cash working capital and abandonment expenditures.
[ii] Field netback is calculated as crude oil and natural gas revenues less royalties and operating expenses.
[iii] Net income for comparative periods have been restated for the effect of adopting IFRS.
[iv] Working capital deficiency is calculated as current assets less current liabilities excluding bank debt and commodity price contracts
[v] Rock's IFRS transition date was January 1, 2010, therefore 2009 comparative information has not been restated.

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 continued to increase for the first three quarters of 2010 due to increased capital spending. During the fourth quarter of 2010, the Company experienced a temporary reduction in its production due to excessive production downtime and reduced well performance related to cold weather conditions on its heavy oil operations. Crude oil and natural gas production remained relatively consistent with the previous quarter of 2010. The Company continued to experience production downtime in the first quarter of 2011 due to a significant mechanical failure had occurred at the SemCAMS K3 gas plant and gathering system, which resulted in significant natural gas and natural gas liquids to be lower than anticipated. Normal operations resumed at the SemCAMS K3 plant and gathering system in mid April 2011 but were shutdown again on May 5, 2011 for an expected timeframe of up to 8 weeks.

Crude oil and natural gas revenue declined throughout the first two quarters of 2009 due to depressed commodity prices and decreased production. Prices and production began to increase during the third quarter of 2009 and first quarter of 2010 resulting in increased crude oil and natural gas revenue. For the second and third quarter of 2010, crude oil and natural gas revenue increased as a result of increased production, which was partially offset by a lower average realized natural gas price and lower realized heavy oil prices. For the fourth quarter of 2010 and first quarter of 2011, revenues increased due to higher oil-based commodity prices.

Royalties per boe decreased since 2008 and averaged approximately 18 percent in 2009 primarily due to lower commodity prices. Royalties were lower still for 2010, due to the Alberta royalty incentive program initiated in 2009 and a prior period gas cost allowance adjustment received in 2010 from the Alberta government. For the first quarter of 2011, royalties have increased due to higher commodity prices.

During the second quarter of 2009, well servicing was reduced due to low commodity prices resulting in lower operating expenses. Operating costs increased through the remainder of 2009 and the first three quarters of 2010 due to a change in the Company's product mix as heavy oil prices improved, heavy oil drilling increased and work-over costs associated with heavy oil wells were incurred. Fourth quarter 2010 operating costs increased due to production downtime in the quarter resulting in unusually high per-boe costs. During the first quarter of 2011, operating costs have increased due to additional production downtime and increased costs in well servicing, fuel costs and work-over costs on its heavy oil wells

G&A expenses for the first and second quarters of 2010 included bonus payments related to 2009 performance and one-time termination costs. Without incurring these one-time items, G&A expenses for the third quarter and fourth quarters of 2010 returned to normal levels on a per-boe basis. Fourth quarter G&A expenses are typically higher due to costs associated with year-end reporting. In the first quarter of 2011, G&A expenses are unusually high due to lower than anticipated production.

Funds from operations have varied primarily due to changes in commodity price levels particularly in the fourth quarter of 2009, 2010 and first quarter of 2011. Management decided to reduce capital expenditures in the first three quarters of 2009 primarily due to an uncertain commodity price environment. For the fourth quarters of 2009 and in 2010, capital expenditures increased as the Company initiated an expanded heavy oil program due to an improvement in crude oil prices, heavy oil differentials and the introduction of the Alberta royalty incentive program. During the first quarter of 2011, the Company increased capital expenditures related to its exploratory drilling program in the Elmworth area. The Company also acquired heavy oil assets for and disposed of certain non-core conventional oil and gas assets.

## 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:

| | 2011 | 2012 |
|---|---|---|
| Office lease premises | $ 624 | $ 581 |
| Processing agreements | $ 171 | $ 159 |

## Outstanding Share Data

At March 31, 2011 Rock had 32,774,180 common shares outstanding and 2,899,995 stock options outstanding with an average exercise price of $3.78. At May 10, 2011 Rock has 32,831,514 common shares outstanding and 2,787,895 options to purchase common shares outstanding with an average exercise price of $3.83.

## 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 2010 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.

**Change in Accounting Policies**

*Adoption of International Financial Reporting Standards*

The Condensed Interim Consolidated Financial Statements and comparative information have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The Company adopted IFRS on January 1, 2011. Previously, Rock prepared its Interim Consolidated Financial Statements in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP"). The Company has provided IFRS accounting policies and prepared reconciliations between Canadian GAAP and IFRS in Note 3 and 17 of its March 31, 2011 Condensed Interim Consolidated Financial Statements. Further information on the significant IFRS accounting policy changes are provided in the Change in Accounting Policies Section of this MD&A. The following provides summary reconciliations of Rock's 2010 net income under Canadian GAAP and IFRS to illustrate the impact on adoption. The adoption of IFRS did not have an impact on the Company's operations, cash flow and capital expenditures.

*Summary of Net Income*

| | | | 2010 | | |
|---|---|---|---|---|---|
| ($000) | Annual | Q4 | Q3 | Q2 | Q1 |
| **Net income (loss) - Canadian GAAP** | (3,627) | (2,300) | (779) | (601) | 53 |
| (Addition)/deduction: | | | | | |
| Exploration and evaluation | (1,964) | (1,194) | (22) | (318) | (430) |
| General and administrative | 22 | (6) | 12 | 13 | 2 |
| Gain on sale of property, plant and equipment | 546 | 546 | - | - | - |
| Depletion and amortization | 7,514 | 1,114 | 2,142 | 2,178 | 2,083 |
| Finance expense (including accretion) | 365 | 111 | 93 | 81 | 78 |
| Deferred taxes | (2,007) | (424) | (573) | (503) | (507) |
| **Net income (loss) - IFRS** | 849 | (2,153) | 873 | 850 | 1,279 |

Accounting Policy Changes

The following discussion illustrates the significant differences between Canadian GAAP and the accounting policies applied by the Company under IFRS. IFRS 1 *First-time adoption of International Financial Reporting Standards* allows first-time adopters certain exemptions from retrospective application of certain IFRS. IFRS policies have been retrospectively applied except where specific IFRS 1 optional and mandatory exemptions permitted an alternative treatment upon transition to IFRS.

*IFRS 1 Exemptions*

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 is conducted at the transition date. More specifically, a Company may choose to allocate the historical full cost pool to cost centres 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 to cash-generating units based on proved plus probable reserve values.

As part of the aforementioned exemption, the Company re-measured its decommissioning liability 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 applied a lower risk-free discount rate to measure its decommissioning liability. As a result, the decommissioning liability balance increased by $2.6 million ($1.9 million after tax) under IFRS from Canadian GAAP.

The Company applied 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 determined the total impact of the conversion to IFRS was a reduction in retained earnings on January 1, 2010 in the amount of $2.8 million. The Company has performed ceiling test calculations at the transition date and did not have any transitional ceiling test write-downs associated with its petroleum and natural gas properties.

*Exploration and Evaluation*

Exploration and evaluation ("E&E") are those expenditures for an area or project for which technical feasibility and commercial viability have not yet been determined. These costs include exploratory drilling and completion, costs of acquiring licenses and directly attributable general and administration costs. The Company capitalizes these costs as E&E assets. When technical feasibility and commercially viability are determined, the costs will be transferred to PP&E. At the date of transition, $20.8 million were transferred from PPE to E&E. As at December 31, 2010, the Company transferred $29.8 million of these costs from PPE to E&E.

E&E will be expensed if technical feasibility and commercial viability cannot be established. The Company has expensed costs under IFRS related to pre-license and land expiries that were previously capitalized in PPE under Canadian GAAP. The impact is illustrated in the reconciliation of net income above. E&E assets are not amortized.

*PP&E and Impairment of Assets*

Development and production (D&P) 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.

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. Under IFRS, PP&E divestitures will generally result in recognition of a gain or loss to income. The Company has illustrated this impact in the reconciliation of net income above.

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. Under Canadian GAAP impairment tests are calculated at the country level. As a result of the accounting policy change, there was no impairment recorded upon transition, comparative periods and at March 31, 2011.

*Depreciation and Depletion*

The costs are 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 determined the area level to be the appropriate unit of account and have used the unit of production basis of depletion and depreciation utilizing proved plus probable reserves. This has resulted in a lower DD&A charge to income. The impact of this change is illustrated in the reconciliation of net income above.

*Decommissioning Liability*

Under Canadian GAAP, the decommissioning liability (formerly referred to as asset retirement obligation) was measured as the estimated fair value of the retirement and decommissioning expenditures expected to be incurred. In measuring the fair value, the Company used a credit adjusted risk free rate to value the liability. Under IFRS, the asset retirement is measured as the best estimate of the expenditure to be incurred using a lower risk-free discount rate. Therefore, the Company concluded that it should apply a lower risk-free discount rate to value the decommissioning liability. As a result, the Company decommissioning liability increased at the date of transition by $2.6 million. As at December 31, 2010, excluding the January 1, 2010 adjustment, Rock's decommissioning liability increased by $0.3 million and the related accretion of the discount decreased.

*Share based payments*

Under Canadian GAAP, the Company accounted for options granted to employees and directors by measuring the fair value of the instruments issued and amortized over the vesting periods. The fair value was measured using a Black Scholes option pricing model using share price, exercise price, expected volatility, weighted average expected life, expected dividends and the risk-free rate. Under IFRS, the Company must apply a forfeiture rate on the grant date and subsequently adjust to reflect the actual number of options that vest. Under Canadian GAAP, forfeitures were recorded at the time of the expiry or cancellation. Therefore, the Company recorded an adjustment for the forfeiture rate prospectively which is illustrated above in the net income reconciliation.

*Flow-through shares*

Flow-through shares are resource expenditure deductions for income tax purposes related to exploratory activities funded by flow-through share arrangements which are renounced to investors in accordance with income tax legislation. Under Canadian

GAAP, the accounting treatment for flow-through shares is to record the full amount of the proceeds in share capital. When expenditures are incurred, the related tax affect is recorded to share capital and the future tax liability. Under IFRS, the amount initially recorded in share capital is limited to the amount of common shares that would have been issued on that date and the difference between the actual proceeds and the amount recorded in share capital is set up as a deferred credit premium on flow-through shares. When the expenditures are incurred, the related deferred credit premium on flow-through shares is reversed and the related tax affect is recorded to the future tax liability. The impact on this change in accounting policy resulted in recording a transitional adjustment to share capital and retained earnings of $890.

*Income tax*

Deferred income tax has been adjusted to reflect the tax effect arising from the differences between Canadian GAAP and IFRS. The Company illustrates the income tax effect above in the net income reconciliation.

**Critical Accounting Estimates**

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

**Crude oil and natural gas assets - reserves estimates** – Rock retained GLJ to evaluate its crude oil and natural gas reserves, prepare an evaluation report, and report to the Reserves Committee of the Board of Directors. The process of estimating crude oil and natural gas reserves is subjective and involves a significant number of decisions and assumptions in evaluating available geological, geophysical, engineering and economic data. These estimates will change over time as additional data from ongoing development and production activities becomes available and as economic conditions affecting crude oil and natural gas prices and costs change. Reserves can be classified as proved, probable or possible with decreasing levels of likelihood that the reserves will be ultimately produced.

Reserve estimates are a key input to the Company's depletion calculations and impairment tests. Property, plant and equipment within each area are depleted using the unit-of-production method based on proved reserves using estimated future prices and costs. In addition, the costs subject to depletion include an estimate of future costs to be incurred in developing proved reserves. A revision in reserve estimates or future development costs could result in the recognition of higher depletion charged to net income.

Under the IFRS, the carrying amounts of property, plant and equipment are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the estimated recoverable amount is calculated. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" or "CGU"). The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Value in use is generally computed by reference to the present value of the future cash flows expected to be derived from production of proven and probable reserves. E&E assets are allocated to the related CGU's to assess for impairment, both at the time of any triggering facts and circumstances as well as upon their eventual reclassification to producing assets (oil and natural gas interests in property, plant and equipment). An impairment loss is recognized in income if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Reserve, revenue, royalty and operating cost estimates and the timing of future cash flows are all critical components of the impairment test. Revisions of these estimates could result in a write-down of the carrying amount of crude oil and natural gas properties.

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

**Commodity price contracts –** The Company has entered into certain financial derivative contracts in order to manage the exposure to market risks from fluctuations in commodity prices. These instruments are not used for trading or speculative purposes. The Company has not designated its financial commodity price contracts as effective accounting hedges. As a result, all financial derivative contracts are classified at fair value through income (loss) and are recorded on the balance sheet at fair value. The estimate of fair value of commodity price contracts requires judgment and incorporated forward market prices. The estimated fair value of financial assets and liabilities is subject to measurement uncertainty.

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

**Income taxes –** Rock follows the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Current tax is the expect tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting period, and any adjustment to tax payable in respect to previous periods. Tax interpretations and legislation in which the Company operates are subject to change. As such, income taxes are subject to measurement uncertainty and interpretations can impact net income through current tax arising from the changes in the deferred income tax asset and liabilities.

## 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 first quarter of 2011, from those outlined in the MD&A of the Company as at December 31, 2010 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.

# Rock Energy Inc.

Condensed Interim Consolidated Statement of Financial Position
*(unaudited)*

| (all amounts in $000) | Notes | | March 31, 2011 | | December 31, 2010 | | January 1, 2010 |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | (note 17) | | (note 17) |
| Accounts receivable | | $ | **10,143** | $ | 8,025 | $ | 10,755 |
| Prepaid expenses and deposits | | | **826** | | 781 | | 1,324 |
| | | | **10,969** | | 8,806 | | 12,079 |
| Exploration and evaluation | 4 | | **37,567** | | 29,788 | | 20,762 |
| Property, plant and equipment (net) | 5 | | **142,237** | | 127,098 | | 112,891 |
| | | | **179,804** | | 156,886 | | 133,653 |
| | | $ | **190,773** | $ | 165,692 | $ | 145,732 |
| **Liabilities** | | | | | | | |
| Accounts payable and accrued liabilities | | $ | **14,437** | $ | 16,612 | $ | 14,414 |
| Bank debt | 8 | | **44,081** | | 24,558 | | 22,997 |
| Commodity price contracts - current portion | 6 | | **4,542** | | 1,252 | | - |
| | | | **63,060** | | 42,422 | | 37,411 |
| Commodity price contracts | 6 | | **1,587** | | 619 | | - |
| Deferred price premium on flow-through shares | 13 | | **-** | | 769 | | - |
| Deferred income tax liability | | | **5,395** | | 3,892 | | 1,655 |
| Decommissioning liability | 9 | | **13,372** | | 11,812 | | 10,089 |
| | | | **20,354** | | 17,092 | | 11,744 |
| **Shareholders' Equity** | | | | | | | |
| Share capital | 10 | | **105,313** | | 105,285 | | 97,115 |
| Contributed surplus | 10 | | **5,545** | | 5,112 | | 4,530 |
| Deficit | | | **(3,499)** | | (4,219) | | (5,068) |
| | | | **107,359** | | 106,178 | | 96,577 |
| Commitments | 15 | | | | | | |
| Subsequent events | 16 | | | | | | |
| | | $ | **190,773** | $ | 165,692 | $ | 145,732 |

*The notes are an integral part of these condensed interim consolidated financial statements.*

# Rock Energy Inc.

Condensed Interim Consolidated Statements of Income and Comprehensive Income
*(unaudited)*

| ($000 except per share amounts) | Notes | | Three Months Ended March 31, 2011 | | Three Months Ended March 31, 2010 |
|---|---|---|---|---|---|
| *Revenue* | | | | | (note 17) |
| Oil and natural gas revenue | | $ | **16,062** | $ | 16,840 |
| Royalties | | | **(2,939)** | | (3,258) |
| Realized loss on commodity price contracts | 6 | | **(223)** | | - |
| Unrealized loss on commodity price contracts | 6 | | **(4,257)** | | - |
| | | | **8,643** | | 13,582 |
| *Expenses* | | | | | |
| Production and operating | | | **6,839** | | 5,195 |
| General and administrative | 11 | | **1,560** | | 1,317 |
| Exploration and evaluation | 4 | | **-** | | 430 |
| Gain on sale of properties | 5 | | **(7,036)** | | - |
| Finance expense | 12 | | **371** | | 234 |
| Depletion and depreciation | 5 | | **5,454** | | 4,570 |
| | | | **7,188** | | 11,746 |
| Income before income taxes | | | **1,455** | | 1,836 |
| Deferred income taxes | | | **735** | | 557 |
| Income and comprehensive income for the period | | $ | **720** | $ | 1,279 |
| Basic and diluted net income per share | 10 | $ | **0.02** | $ | 0.04 |

*The notes are an integral part of these condensed interim consolidated financial statements.*

# Rock Energy Inc.

Condensed Interim Consolidated Statements of Changes in Shareholders' Equity
*(unaudited)*

| ($000) | Notes | Share capital | Contributed Surplus | Deficit | Total Shareholders' Equity |
|---|---|---|---|---|---|
| Balance at January 1, 2010 | 17 | $ 97,115 | $ 4,530 | $ (5,068) | $ 96,577 |
| Share based payments | 11 | - | 148 | - | 148 |
| Income for the period | | - | - | 1,279 | 1,279 |
| Balance at March 31, 2010 | | $ 97,115 | $ 4,678 | $ (3,789) | $ 98,004 |

| ($000) | Notes | Share capital | Contributed Surplus | Deficit | Total Shareholders' Equity |
|---|---|---|---|---|---|
| Balance at December 31, 2010 | 17 | $ 105,285 | $ 5,112 | $ (4,219) | $ 106,178 |
| Share based payments | 11 | - | 443 | - | 443 |
| Issued on exercise of options | 10 | 28 | (10) | - | 18 |
| Income for the period | | - | - | 720 | 720 |
| Balance at March 31, 2011 | | $ 105,313 | $ 5,545 | $ (3,499) | $ 107,359 |

*The notes are an integral part of these condensed interim consolidated financial statements.*

## Rock Energy Inc.
Condensed Interim Consolidated Statements of Cash Flows
*(unaudited)*

| (all amounts in $000) | Notes | **Three Months Ended March 31, 2011** | Three Months Ended March 31, 2010 |
|---|---|---|---|
| | | | (note 17) |
| Cash flows from operating activities: | | | |
| Income for the period | | **$ 720** | $ 1,279 |
| Adjustments for non - cash items: | | | |
| Exploration and evaluation expense | 4 | **-** | 430 |
| Depletion and depreciation | 5 | **5,454** | 4,570 |
| Unrealized loss on commodity price contracts | 6 | **4,257** | - |
| Gain on sale of properties | 5 | **(7,036)** | - |
| Share based payments | 11 | **280** | 88 |
| Finance expense (accretion) | 12 | **42** | 39 |
| Deferred income taxes | | **735** | 557 |
| Abandonment (expenditures) recovery | | **17** | (43) |
| Changes in non-cash working capital | 14 | **(2,339)** | 1,001 |
| Cash from operating activities | | **2,130** | 7,921 |
| Cash flows from investing activities: | | | |
| Capital expenditures | 4, 5 | **(18,403)** | (13,596) |
| Acquisition | 5 | **(12,828)** | - |
| Disposition | 5 | **11,559** | - |
| Changes in non-cash working capital | 14 | **(1,999)** | (183) |
| Cash used in investing activities | | **(21,671)** | (13,779) |
| Cash flows from financing activites: | | | |
| Exercise of stock options | 10 | **18** | (8) |
| Proceeds from bank debt | 8 | **19,523** | 5,866 |
| Cash from financing activities | | **19,541** | 5,858 |
| Change in cash | | **-** | - |
| Cash, beginning of period | | **-** | - |
| Cash, end of period | | **$ -** | $ - |

*The notes are an integral part of these condensed interim consolidated financial statements.*

## 1. REPORTING ENTITY

Rock Energy Inc. ("the "Company" or "Rock") is a publicly traded company incorporated under the laws of Alberta. Rock and its wholly owned subsidiaries are engaged in the exploration, development and production of crude oil and natural gas in Western Canada.

## 2. BASIS OF PRESENTATION

*Statement of compliance*

The condensed interim consolidated financial statements present Rock's initial financial results of operations and financial position under International Financial Reporting Standards ("IFRS") for the three months ended March 31, 2011, including 2010 comparable periods. These are the Company's first IFRS condensed interim consolidated financial statements for part of the period covered by the first IFRS annual financial statements. IFRS 1 *First-time Adoption of IFRS* and International Accounting Standard ("IAS") 34 *Interim Financial* Reporting has been applied. These condensed interim Consolidated Financial Statements may not include all the necessary annual disclosures in accordance with IFRS.

The adoption of IFRS resulted in selected changes to Rock's accounting policies as compared to those disclosed in the Company's annual audited Consolidated Financial Statements for the period ended December 31, 2010 issued under Canadian GAAP. A summary of the significant changes to Rock's accounting policies are presented in note 17 along with reconciliations illustrating the impact of the transition to IFRS for the comparable periods as at January 1, 2010, as at and for the three months ended March 31, 2010 and for the year ended December 31, 2010.

The condensed interim consolidated financial statements for the periods ended March 31, 2011 and 2010 and as at March 31, 2011, March 31, 2010, December 31, 2010 and January 1, 2010 were approved and authorized for issue by the Board of Directors on May 10th, 2011.

*Basis of measurement*

The condensed interim consolidated financial statements have been prepared on the historical cost basis except for certain financial assets and liabilities (note 6) which are measured at fair value.

*Functional and presentation currency*

The condensed interim consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency.

*Use of estimates and judgments*

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognized in the condensed interim consolidated financial statements is included in the following notes:

- Note 4 – valuation of exploration and evaluation
- Note 5 – valuation of property, plant and equipment, depletion and depreciation
- Note 6 – valuation of financial instruments
- Note 9 – decommissioning liability and accretion
- Note 11 – measurement of share-based payments

Crude oil and natural gas reserve estimates impact a number of the areas referred to above in particular, the valuation of property, plant and equipment and the calculation of depletion and depreciation.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these condensed interim consolidated financial statements, and have been applied consistently by the Company and its subsidiaries.

Certain comparative amounts have been reclassified to conform with the current year's presentation. The impact of the transition from Canadian Generally Accepted Accounting Principles ("GAAP") to IFRS is explained in note 17.

(a) Basis of Consolidation

The condensed interim consolidated financial statements include the accounts of Rock and its wholly owned subsidiaries Rock Energy Ltd. and Rock Energy Production Partnership. These subsidiaries are entities controlled by Rock. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. All intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements.

A substantial portion of the Company's crude oil and natural gas exploration and development activities is conducted jointly with others and, accordingly, these consolidated financial statements reflect only the Company's proportionate interest in such activities.

(b) Exploration and Evaluation

Pre-license costs are recognized as an expense when incurred.

Exploration and evaluation costs ("E&E"), including the costs of acquiring licenses, exploratory drilling and completion costs and directly attributable general and administrative costs are initially capitalized as either tangible or intangible exploration and evaluation assets according to the nature of the asset acquired. These costs are accumulated in cost centres by field or exploration area pending determination of technical feasibility and commercial viability. Ongoing carrying costs including the costs of non-producing lease rentals are capitalized to exploration and evaluation assets.

E&E assets are assessed for impairment if (i) sufficient data exists to determine the lack of technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For purposes of impairment testing, exploration and evaluation assets are allocated to cash-generating units.

The technical feasibility and commercial viability of extracting a mineral resource is considered to be determinable when proved reserves are determined to exist. A review of each exploration license or area is carried out, at least annually, to ascertain whether proved reserves have been discovered. Upon determination of proved reserves, exploration and evaluation assets attributable to those reserves are first tested for impairment and then reclassified from E&E assets to property, plant and equipment.

(c) Property, Plant and Equipment

Property, plant and equipment includes crude oil and natural gas development and production assets, including costs incurred in developing oil and natural gas reserves and maintaining or enhancing production from such reserves and directly attributable general and administrative costs. Property, plant and equipment is carried at cost, less accumulated depletion and depreciation and accumulated impairment losses.

Gains and losses on disposal of an item of property, plant and equipment, including crude oil and natural gas interests, are determined by comparing the proceeds from disposal with the net carrying amount of property, plant and equipment and are recognized within "other income" or "other expenses" in income (loss).

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of property, plant and equipment are recognized as oil and natural gas interests only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in earnings as incurred. Capitalized oil and natural gas interests generally represent costs incurred in developing proved and/or probable reserves and bringing on or enhancing production from such reserves, and are accumulated on a field or geotechnical area basis. The carrying amount of any replaced or sold component is derecognized at the time of replacement or sale. The costs of the day-to-day servicing of property, plant and equipment are recognized in earnings as incurred.

*Depletion and Depreciation*
The net carrying value of development or production assets is depleted on a field by field basis using the unit of production method by reference to the ratio of production in the year to the related proven and probable reserves, taking into account estimated future development costs necessary to bring those reserves into production. Future development costs are estimated taking into account the level of development required to produce the reserves. These estimates are reviewed by independent reserve engineers at least annually.

Proved and probable reserves are estimated by independent reserve engineers in accordance with Canadian Securities Regulation National Instrument 51-101. Production and reserves of natural gas are converted to equivalent barrels of crude oil on the basis of six thousand cubic feet of gas to one barrel of oil. Changes in reserve estimates used in prior periods, such as proved and probable reserves, that affect the unit-of-production calculations do not give rise to prior year adjustments and are dealt with on a prospective basis.

For other assets, depreciation is recognized in earnings on a declining basis using an annual rate of 20 percent. Depreciation methods, useful lives and residual values are reviewed at each reporting date.

*Impairment*
The carrying amounts of property, plant and equipment are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the estimated recoverable amount is calculated. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" or "CGU"). The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs to sell.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money. Value in use is generally computed by reference to the present value of the future cash flows expected to be derived from production of proved and probable reserves.

E&E assets are allocated to the related CGU's to assess for impairment, both at the time of any triggering facts and circumstances as well as upon their eventual reclassification to producing assets (oil and natural gas interests in property, plant and equipment).

An impairment loss is recognized in earnings if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount.

Impairment losses previously recognized are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of accumulated depletion and depreciation, if no impairment loss had been recognized.

(d) Financial Instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments are comprised of cash and cash equivalents, trade and other receivables, loans and borrowings, and trade and other payables. Upon initial recognition, all financial instruments are recognized on the balance sheet at fair value. Subsequent measurement is then based on each financial instrument being classified into one of five categories; held for trading, held to maturity, loans and receivables, available for sale, and other liabilities.

The Company has measured its trade and other receivables, bank debt, and trade and other payables at amortized cost using the effective interest method, less any impairment losses.

*Impairment*
A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognized in earnings.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in earnings.

(ii) Derivative financial instruments

The Company has entered into certain financial derivative contracts in order to manage the exposure to market risks from fluctuations in commodity prices. These instruments are not used for trading or speculative purposes. The Company has not designated its financial commodity price contracts as effective accounting hedges, and thus not applied hedge accounting, even though the Company considers all commodity price contracts to be economic hedges. As a result, all financial derivative contracts are recognized in the statement of financial position and earnings at fair value. Transaction costs are recognized in earnings when incurred.

(iii) Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

(e) Revenue recognition

Revenue from the sale of crude oil and natural gas is recorded when the significant risks and rewards of ownership of the product is transferred to the buyer which is usually when legal title passes to the external party. This is generally at the time volumes are delivered to customers at contractual delivery points and rates. Realized gains and losses from the Company's commodity price contracts are recognized in revenue when the contract is settled. Unrealized gains and losses from the Company's commodity price contracts are recognized in revenue based on the changes in fair value of the contracts at the end of the respective period.

(f) Decommissioning obligations

The Company's operating activities give rise to a legal obligation to restore its crude oil or natural gas properties in the future, typically when a well is drilled or other equipment is put in place. The associated decommissioning obligations are measured at the present value of management's best estimate of the expenditures required to settle the present obligation at the balance sheet date. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the obligation due to the passage of time is recognized as finance costs whereas increases/decreases due to changes in the estimated future cash flows are capitalized. Actual costs incurred upon settlement of the obligation are charged against the obligation to the extent the obligation was established.

(g) Share based payments

The Company grants options to purchase common shares to employees and directors under its stock option plan. Share based payments to employees and directors are measured at the fair value of the instruments issued and amortized over the vesting periods. The amount recognized as a share based payment expense during a reporting period, within general and administrative expenses, is adjusted to reflect the number of awards expected to vest. The offset to this recorded cost is to contributed surplus.

The fair value of employee stock options is measured using a Black Scholes option pricing model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on medium term government bonds). A forfeiture rate is estimated on the grant date and is subsequently adjusted to reflect the actual number of options that vest.

(h) Finance expenses

Finance expense is comprised of interest expense on loans and borrowings, accretion of the discount on the decommissioning liability and impairment losses recognized on financial assets. Interest income is comprised of interest earned on cash on hand and is recognized as it accrues in earnings using the effective interest method.

(i) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognized in earnings except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(j) Flow-through shares

The resource expenditure deductions for income tax purposes related to exploratory activities funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation. Future tax liabilities and deferred price premiums are adjusted by the estimated cost of the renounced tax deduction when the expenditures are incurred.

(k) Earnings per share

Basic earnings per share is calculated by dividing the income attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted earnings per share is determined by adjusting the income (loss) attributable to common shareholders and the weighted average number of common shares outstanding for the effects of dilutive instruments such as options granted to employees. The calculation assumes the proceeds on exercise of options are used to repurchase shares at the current market price.

(all amounts in text and tables are in $000 except per share amounts, numbers of shares and options, and other exceptions as indicated)

(l) Currency translation

The functional and reporting currency of the Company and its subsidiaries is the Canadian dollar. Transactions in currencies other than the functional currency are recorded at the rate of exchange prevailing on the date of the transaction. Monetary assets and liabilities that are denominated in foreign currencies are translated at the rate prevailing at each reporting date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date the fair value was determined. Non-monetary items that are measured at historical cost in a foreign currency are translated at the exchange rate on the date of the transaction. Foreign currency translation differences are recognized in income (loss), except for differences on the retranslation of available-for-sale investments which are recognized in other comprehensive income.

(m) New standards and interpretations not yet adopted

IFRS 9 Financial Instruments, as issued in November 2009 and revised in October 2010 is required to be adopted by 2013, subject to confirmation by the International Accounting Standards Board. The standard addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 and divides all financial assets that are currently in the scope of IAS 39 into two classifications; amortized cost and those measured at fair value. The Company has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

## 4. EXPLORATION AND EVALUATION

| | Intangible Exploration Assets |
|---|---|
| *Cost:* | |
| Balance at January 1, 2010 | $ 20,762 |
| Additions | 11,772 |
| Transfers to property, plant and equipment | (782) |
| Transfers to exploration and evaluation expense | (1,964) |
| Balance at December 31, 2010 | 29,788 |
| Additions | 8,561 |
| Transfers to property, plant and equipment | (413) |
| Transfers to exploration and evaluation expense | - |
| Acquisitions | 146 |
| Dispositions | (515) |
| Balance at March 31, 2011 | $ 37,567 |

E&E assets consist of the Company's unproved properties and capitalized exploration drilling and completion costs which are pending the determination of commercial feasibility. The Company assesses the recoverability of E&E assets, before and at the moment of reclassification to property, plant and equipment, within the Company's CGU's. The CGUs includes both E&E assets and assets related to oil and natural gas interests for that area. During first quarter of 2011, the Company expensed nil (2010 - $430) related to pre-license costs and land expiries.

(all amounts in text and tables are in $000 except per share amounts, numbers of shares and options, and other exceptions as indicated)

## 5. PROPERTY, PLANT AND EQUIPMENT

| | Petroleum and natural gas properties | Office equipment | Total |
|---|---|---|---|
| *Deemed cost:* | | | |
| Balance at January 1, 2010 | $ 112,033 | $ 1,511 | $ 113,544 |
| Additions | 32,728 | 103 | 32,831 |
| Transfer from intangible exploration assets | 782 | - | 782 |
| Acquisitions | 1,786 | - | 1,786 |
| Dispositions (net of gain of $546) | (1,752) | - | (1,752) |
| Balance at December 31, 2010 | 145,577 | 1,614 | 147,191 |
| Additions | 11,505 | - | 11,505 |
| Transfer from intangible exploration assets | 413 | - | 413 |
| Acquisitions | 12,682 | - | 12,682 |
| Dispositions (net of gain of $7,036) | (6,293) | - | (6,293) |
| Balance at March 31, 2011 | $ 163,884 | $ 1,614 | $ 165,498 |
| *Accumulated depletion and depreciation:* | | | |
| Balance at January 1, 2010 | $ - | $ 653 | $ 653 |
| Depletion and depreciation for the year | 19,279 | 161 | 19,440 |
| Balance at December 31, 2010 | 19,279 | 814 | 20,093 |
| Depletion and depreciation expense for the period | 5,415 | 39 | 5,454 |
| Dispositions | (2,286) | - | (2,286) |
| Balance at March 31, 2011 | $ 22,408 | $ 853 | $ 23,261 |
| *Carrying amounts:* | | | |
| At January 1, 2010 | $ 112,033 | $ 858 | $ 112,891 |
| At December 31, 2010 | $ 126,298 | $ 800 | $ 127,098 |
| At March 31, 2011 | $ 141,476 | $ 761 | $ 142,237 |

(a) Depletion and depreciation

The depletion, depreciation and impairment of property, plant and equipment, and any eventual reversal thereof, are recognized in depletion and depreciation in earnings. At March 31, 2011, the Company included $30,547 of future development costs (March 31, 2010 – $24,945) into the net carrying value of development or production assets, subject to depletion as those costs are necessary to bring the proved and probable reserves into production.

(b) Property acquisition and disposition

On February 23, 2011 Rock completed the acquisition of certain heavy oil properties for $13,350, subject to purchase price adjustments of $522 (net - $12,828). In addition, the Company disposed of certain non-core producing natural gas assets for cash consideration of $12,029, subject to purchase price adjustments of $470 (net - $11,559). The Company recorded a $7,036 gain to earnings related to the sale of these properties.

(c) Capitalized general and administrative expense

During the period ended March 31, 2011, $606 (2010 - $395) of directly attributable administrative costs were capitalized as part of property, plant and equipment.

(all amounts in text and tables are in $000 except per share amounts, numbers of shares and options, and other exceptions as indicated)

## 6. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

*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.

The Company is required to present information about financial instruments measured at fair value in accordance with a three-level hierarchy. The Company's commodity oil price contracts, which are recorded at fair value on a recurring basis, have been classified in one of the following three categories based on this fair-value hierarchy:

- 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.

Rock's commodity price contracts have been classified as Level 2 as the estimation of fair value incorporates forward prices. Assessment of the significance of a particular input to the fair value measurement requires judgement and may affect the financial instrument's placement in the hierarchy.

*Commodity Price Risk*
Due to the volatile nature of commodity prices the Company could be exposed to adverse consequences if commodity prices decline. However, if commodity prices are hedged, future gains from rising commodity prices would be forfeited to varying degrees depending on the nature and degree of hedging. Commodity prices for petroleum and natural gas are impacted not only by the relationship between the Canadian and United States dollars, as outlined below, but also global economic events that dictate the levels of supply and demand. A $1.00 per barrel change for its oil and natural gas liquids production is estimated to result in a change to the three months ended March 31, 2011 after tax net income (loss) of $135 (2010 – $116). A $0.25 per mcf change in the Company's realized sales price for its natural gas production is estimated to result in a change to the three months ended March 31, 2011 after tax net income (loss) of $79 (2010 – $108).

The Company may utilize commodity price contracts to manage market risk. All such transactions are conducted in accordance with the risk management policy that has been approved by the Board of Directors. The Company has attempted to mitigate commodity price risk through the use of commodity price contracts. As at March 31, 2011, the Company has fixed the price applicable to future production through the following contracts:

| Type of Contract | Commodity | Average Quantity | Contract Price (US $/bbls) | Pricing Point | Term |
|---|---|---|---|---|---|
| Financial | Crude oil | 1,100 bbls/d | $80.00 floor / $96.80 ceiling | WTI - NYMEX | January 2011 - December 2011 |
| Financial | Crude oil | 400 bbls/d | $80.00 floor / $96.80 ceiling | WTI - NYMEX | January 2012 - December 2012 |
| Financial | Crude oil | 400 bbls/d | $92.60 floor / $109.60 ceiling | WTI - NYMEX | January 2012 - March 2012 |
| Financial | Crude oil | 300 bbls/d | $90.00 floor / $106.85 ceiling | WTI - NYMEX | January 2013 - March 2013 |

The fair value of these contracts as at March 31, 2011 is a liability of $6,129 (December 31, 2010 – $1,871), of which $4,542 was classified as a current liability and $1,587 as a long-term liability. For the three months ended March 31, 2011, the loss on these contracts recognized in income was $4,480 composed of an unrealized loss of $4,257 and a realized loss of $223. The Company is exposed to foreign currency fluctuations as crude oil and natural gas prices received are referenced in U.S. dollar-denominated prices.

*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 at December 31, 2010 the Company does not have any foreign currency exchange contracts in place. A $0.01 change in the Canadian dollar/U.S. dollar exchange rate is estimated to result in a change to the three months ended March 31, 2011 after tax net income (loss) of $129 (2010– $112).

(all amounts in text and tables are in $000 except per share amounts, numbers of shares and options, and other exceptions as indicated)

*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 longstanding 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 for doubtful accounts has not been set up. Receivables related to oil and natural gas marketers are normally collected on the 25$^{th}$ 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 March 31, 2011 the Company's receivables consist of $964 (December 31, 2010 – $225) from joint interest partners, $7,556 (December 31, 2010 – $6,007) from oil and natural gas marketers, $808 (December 31, 2010 – $1,259) of drilling incentive credits and $815 (December 31, 2009 – $534) of other trade receivables.

*Interest Rate Risk*
The Company is exposed to interest rate risk to the extent that bank debt is subject to a floating short-term rate of interest. The Company does not have any interest rate contracts in place as of March 31, 2011. A 1 percent change to the floating short-term interest rates is estimated to result in a $66 change in after tax net income (loss) for the first quarter of 2011 (2010 - $48).

## 7. CAPITAL MANAGEMENT

In order to continue the Company's future exploration and development program, the Company must maintain a strong balanced capital structure. A strong capital base helps the Company to access the equity and debt markets when deemed advisable and to 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. The Company attempts to minimize the impact of commodity price volatility by entering into commodity price contracts. It then determines the need for any 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.

| | **March 31, 2011** | March 31, 2010 |
|---|---|---|
| Shareholders' equity (see note 17) | $ 107,359 | $ 98,004 |
| Bank debt | $ 44,081 | $ 28,863 |
| Working capital deficiency (excluding bank debt and unrealized commodity price contracts) | $ 3,468 | $ 3,153 |

The Company monitors its capital based primarily on its ratio of debt to annualized funds flow. Debt includes bank debt plus or minus working capital (excluding derivative contracts). 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. At March 31, 2011, the Company's debt to annualized funds flow has temporarily exceeded this desired level due to significant first quarter capital expenditures. 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 March 31, 2011, the Company's debt-to-annualized-funds-flow ratio was 2.7:1.

(all amounts in text and tables are in $000 except per share amounts, numbers of shares and options, and other exceptions as indicated)

The Company's share capital is not subject to external restrictions but the Company has 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 the deduction of the current portion of bank debt from the current liabilities (excluding commodity price contracts). The Company is in compliance with this covenant as at March 31, 2011.

## 8. BANK DEBT

The Company has a demand operating credit facility with a Canadian chartered bank subject to the bank's evaluation of the Company's crude oil and natural gas properties. The limit under the facility at March 31, 2011 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 the prevailing bankers' acceptance rate plus an applicable bank fee, which varies depending on the Company's debt-to-funds-from-operations ratio. The facility also bears a standby charge for undrawn amounts. The 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. A review of the facility was completed in April 2011 resulting in an increase to the limit under the facility to $65 million.

## 9. DECOMMISSIONING LIABILITY

The decommissioning liability 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 decommissioning liability at March 31, 2011 to be approximately $16,498 (December 31, 2010 – $12,962) including expected annual inflation of 1.5 percent (December 31, 2010 – 1.5 percent). A risk-free rate of 3.14 percent (December 31, 2010 – 3.14 percent) was used to calculate the fair value of the liability. 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 decommissioning liability:

| | **March 31, 2011** | December 31, 2010 |
|---|---|---|
| Opening balance | **$ 11,812** | $ 10,089 |
| Liabilities incurred | **1,965** | 1,889 |
| Accretion | **42** | 151 |
| Revision(i)/Dispositions | **(464)** | (76) |
| Abandonment expenditures | **17** | (241) |
| Closing balance | **$ 13,372** | $ 11,812 |

(i) Revisions to the liability are a result of changes in current estimates of future abandonment costs.

## 10. SHARE CAPITAL AND CONTRIBUTED SURPLUS

(a) 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.

(b) Common shares issued

| | **Number** | **Amount** |
|---|---|---|
| Issued and outstanding on January 1, 2010 and March 31, 2010 | 30,557,243 | $ 97,115 |

| | **Number** | **Amount** |
|---|---|---|
| Issued and outstanding on December 31, 2010 | 32,753,746 | $ 105,285 |
| Issued on exercise of stock options | 20,434 | 28 |
| Issued and outstanding on March 31, 2011 | 32,774,180 | $ 105,313 |

(all amounts in text and tables are in $000 except per share amounts, numbers of shares and options, and other exceptions as indicated)

(c) Stock options

The Company has a stock option 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. Options granted to replace an expiring tranche, if applicable, vest in two years and expire in three years. The following table summarizes the stock options outstanding at March 31, 2011 and December 31, 2010 and changes during the years ended on those dates:

| | Number of Options | Weighted Average Exercise Price |
|---|---|---|
| December 31, 2009 | 1,592,248 | $ 1.06 |
| Granted | 1,160,900 | 4.32 |
| Exercised | (478,139) | 0.96 |
| Forfeited | (232,714) | 1.22 |
| December 31, 2010 | 2,042,295 | $ 2.92 |
| Granted | 918,400 | 5.55 |
| Exercised | (20,434) | 0.86 |
| Forfeited | (40,266) | 2.22 |
| March 31, 2011 | 2,899,995 | $ 3.78 |

Options outstanding and exercisable under the stock option plan are summarized below as at March 31, 2011:

| | Outstanding Options | | | Exercisable Options | |
|---|---|---|---|---|---|
| **Exercise Price** | **Number of Options** | **Weighted Average Exercise Price** | **Weighted Average Years to Expiry** | **Number of Options** | **Weighted Average Exercise Price** |
| $0.84 - $2.01 | 739,062 | $ 1.02 | 1.47 | 42,467 | $ 1.53 |
| $2.02 - $4.18 | 893,333 | $ 3.87 | 1.92 | 81,668 | $ 3.26 |
| $4.19 - $5.40 | 349,200 | $ 4.68 | 2.20 | 6,667 | $ 4.40 |
| $5.41 - $5.69 | 918,400 | $ 5.55 | 2.96 | - | $ - |
| | 2,899,995 | $ 3.78 | 2.17 | 130,802 | $ 2.76 |

(d) Contributed surplus:

Changes in the contributed surplus account for the three months ended March 31, 2011 and year ended December 31, 2010 outlined as follows:

| | **March 31, 2011** | December 31, 2010 |
|---|---|---|
| Opening balance | $ **5,112** | $ 4,530 |
| Share based payments | **443** | 1,340 |
| Net benefit on options exercised (i) | **(10)** | (758) |
| Closing balance | $ **5,545** | $ 5,112 |

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

(e) 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 months ended March 31, 2011 was 32,759,421 (December 31, 2010 – 30,941,321). For the period ended March 31, 2011, 902,670 shares (year ended December 31, 2010 – 961,087 shares) were added to the weighted average shares outstanding for the dilutive effect of employee stock options.

(all amounts in text and tables are in $000 except per share amounts, numbers of shares and options, and other exceptions as indicated)

## 11. SHARE BASED PAYMENTS

Options granted to employees and directors are accounted for using the fair value method. The fair value of 918,400 common share options granted during the period ended March 31, 2011 was estimated to be $2,170. 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:

| | |
|---|---|
| Risk free interest rate (%) | 2.1% |
| Expected life (years) | 3.0 |
| Expected volatility (%) | 71% |
| Expected dividend yield (%) | 0.0% |
| Forfeiture rate (%) | 5.1% |
| Weighted average fair value per share ($) | $2.63 |

During the quarter ended March 31, 2011, the Company recorded share based payments of $443 (March 31, 2010 – $211) of which $280 (March 31, 2010 - $144) was recognized as an expense and $163 (March 31, 2010 – $67) was capitalized to property, plant and equipment.

## 12. FINANCE EXPENSES

| | March 31, 2011 | | March 31, 2010 | |
|---|---|---|---|---|
| Interest on bank debt | $ | 329 | $ | 195 |
| Accretion of decommissioning liability | | 42 | | 39 |
| Net finance expenses recognized in earnings | $ | 371 | $ | 234 |

## 13. DEFERRED PRICE PREMIUM ON FLOW-THROUGH SHARES

| | | Amount |
|---|---|---|
| Deferred price premium on flow-through shares | $ | 1,855 |
| Flow-through renunciation (ii) | | (1,086) |
| Balance at December 31, 2010 | | 769 |
| Flow-through renunciation (iii) | | (769) |
| Deferred price premium on flow-through shares, closing balance at March 31, 2011 | $ | - |

(i) The Company completed an equity financing on a flow-through basis on November 16, 2010 of 1,855,000 common shares at $5.40 per share for gross proceeds of $10,017. The Company estimated the flow-through premium to be $1.00/share.
(ii) At December 31, 2010, the Company had incurred $5.9 million of the flow-through share proceeds on qualifying exploration and development activity resulting in the reversal of the deferred price premium related to those expenditures and recorded the related tax effect of $1,086.
(ii) At March 31, 2011, the Company incurred the remainder of the $10,017 proceeds on qualifying exploration and development activity and reversed the remaining portion of the deferred price premium and the related tax effect of $769.

(all amounts in text and tables are in $000 except per share amounts, numbers of shares and options, and other exceptions as indicated)

## 14. SUPPLEMENTAL CASH FLOW INFORMATION

**Changes in non-cash working capital for the three months ended March 31, 2011 and March 31, 2010 is comprised of:**

| | March 31, 2011 | | March 31, 2010 | |
|---|---|---|---|---|
| Trade and other receivables | $ | (2,118) | $ | (2,539) |
| Prepaid expenses and deposits | | (45) | | 125 |
| Trade and other payables | | (2,175) | | 3,232 |
| | $ | (4,338) | $ | 818 |
| Related to operating activities | $ | (2,339) | $ | 1,001 |
| Related to investing activities | $ | (1,999) | $ | (183) |

## 15. COMMITMENTS

The Company has the following obligations with fixed terms:

| | | 2011 | | 2012 |
|---|---|---|---|---|
| Office lease premises | $ | 624 | $ | 581 |
| Processing arrangements | $ | 171 | $ | 159 |

During the 2010 fiscal year, the Company issued flow-through shares totaling $10,017 resulting in an obligation to incur qualifying exploration expenditures. As at March 31, 2011, the Company had satisfied this obligation.

## 16. SUBSEQUENT EVENT

On April 29, 2011, the Company announced a $30 million bought deal financing with a syndicate of underwriters ("underwriters") for 4,000,000 common shares at an issue price of $5.00 per common share and 1,640,000 common shares to be issued on a flow-through basis at an issue price of $6.10 per flow-through common share.

## 17. FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

As disclosed in Note 2, these are the Company's first condensed interim consolidated financial statements for the period covered by the first annual consolidated financial statements to be prepared in accordance with IFRS. The accounting policies set out in note 3 have been applied in preparing the condensed interim consolidated financial statements for the period ended March 31, 2011, January 1, 2010 transitional consolidated statement of financial position and the comparative financial statements for the periods ended March 31, 2010 and December 31, 2010. IFRS 1 *First-time Adoption of IFRS* and International Accounting Standard ("IAS") 34 *Interim Financial* Reporting have been applied to these condensed interim Consolidated Financial Statements.

As a result of applying IFRS 1, the Company is required to present comparative information with the application of IFRS accounting policies as at the January 1, 2010 transition date and comparative information for the three months ended March 31, 2010 and for the year ended December 31, 2010. IFRS 1 provides for certain mandatory and optional exemptions for first-time adopters to alleviate the retrospective application of all the accounting standards under IFRS.

An explanation of how the transition from Canadian GAAP to IFRS has affected the Company's financial position, financial performance and cash flows is set out in the following tables.

### Key First-Time Adoption Exemptions Applied

IFRS 1 *First-Time Adoption of International Financial Reporting* allows first-time adopters certain exemptions from retrospective application of certain IFRS.

The following include the significant IFRS 1 exemptions taken by the Company at January 1, 2010;

(i) Historical cost as deemed cost:

The Company elected an IFRS 1 exemption whereby the Canadian GAAP full cost pool was measured upon transition to IFRS at the amount determined under Canadian GAAP as at January 1, 2010. Cost included in the full cost pool on January 1, 2010 were allocated on a pro-rata basis to the underlying assets on the basis of proved and probable reserves values as at January 1, 2010. The exploration and evaluation assets were reclassified from the full cost pool to exploration and evaluation assets at the amount that was recorded under Canadian GAAP.

(ii) Business combinations:

IFRS 3 *Business Combinations* has not been applied to acquisitions of subsidiaries or interests in joint ventures that occurred before January 1, 2010.

(iii) Decommissioning liabilities:

The Company elected the exemption under IFRS 1 to not restate decommissioning liabilities retrospective under IAS 37 & IFRIC 1.

(iv) Share based payment transactions:

Rock elected the exemption under IFRS 1 and prospectively applied IFRS 2 to its awards that vest after transition date.

(all amounts in text and tables are in $000 except per share amounts, numbers of shares and options, and other exceptions as indicated)

*Reconciliation of Equity at January 1, 2010 (Date of Transition to IFRS)*

| (all amounts in $'000) | Notes | | Canadian GAAP | Effect of transition to IFRS | | IFRS |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Accounts receivable | | $ | 10,755 | - | $ | 10,755 |
| Prepaid expenses and deposits | | | 1,324 | - | | 1,324 |
| | | | 12,079 | - | | 12,079 |
| Exploration and evaluation | 17 (a),(b) | | - | 20,762 | | 20,762 |
| Property, plant and equipment (net) | 17 (a), (e) | | 133,653 | (20,762) | | 112,891 |
| | | | 133,653 | - | | 133,653 |
| | | $ | 145,732 | - | $ | 145,732 |
| **Liabilities** | | | | | | |
| Account payable and accrued liabilities | | $ | 14,414 | - | $ | 14,414 |
| Bank debt | | | 22,997 | - | | 22,997 |
| | | | 37,411 | - | | 37,411 |
| Deferred income tax liability | 17 (g) | | 2,320 | (665) | | 1,655 |
| Decommissioning liability | 17 (c) | | 7,533 | 2,556 | | 10,089 |
| | | | 9,853 | 1,891 | | 11,744 |
| **Shareholders' Equity** | | | | | | |
| Share capital | 17 (f) | | 96,225 | 890 | | 97,115 |
| Contributed surplus | 17 (d) | | 4,553 | (23) | | 4,530 |
| Deficit | | | (2,310) | (2,758) | | (5,068) |
| | | | 98,468 | (1,891) | | 96,577 |
| | | $ | 145,732 | - | $ | 145,732 |

*Reconciliation of Equity at March 31, 2010*

| (all amounts in $000) | Notes | | Canadian GAAP | Effect of transition to IFRS | | IFRS |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Accounts receivable | | $ | 13,294 | - | $ | 13,294 |
| Prepaid expenses and deposits | | | 1,199 | - | | 1,199 |
| | | | 14,493 | - | | 14,493 |
| Exploration and evaluation | 17 (a) | | - | 19,126 | | 19,126 |
| Property, plant and equipment (net) | 17 (a), (b), (c), (d), (e) | | 141,072 | (17,258) | | 123,814 |
| | | | 141,072 | 1,868 | | 142,940 |
| | | $ | 155,565 | 1,868 | $ | 157,433 |
| **Liabilities** | | | | | | |
| Account payable and accrued liabilities | | $ | 17,646 | - | $ | 17,646 |
| Bank debt | | | 28,863 | - | | 28,863 |
| | | | 46,509 | - | | 46,509 |
| Deferred income tax liability | 17 (f), (g) | | 2,427 | (215) | | 2,212 |
| Decommisioning liability | 17 (c) | | 8,014 | 2,694 | | 10,708 |
| | | | 10,441 | 2,479 | | 12,920 |
| **Shareholders' Equity** | | | | | | |
| Share capital | 17 (f) | | 96,168 | 947 | | 97,115 |
| Contributed surplus | 17 (d) | | 4,704 | (26) | | 4,678 |
| Deficit | | | (2,257) | (1,532) | | (3,789) |
| | | | 98,615 | (611) | | 98,004 |
| | | $ | 155,565 | 1,868 | $ | 157,433 |

*Reconciliation of Equity at December 31, 2010*

| (all amounts in $000) | Notes | | Canadian GAAP | Effect of transition to IFRS | | IFRS |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Accounts receivable | | $ | 8,025 | - | $ | 8,025 |
| Prepaid expenses and deposits | | | 781 | - | | 781 |
| Deferred tax asset | | | 319 | (319) | | - |
| | | | 9,125 | (319) | | 8,806 |
| Exploration and evaluation | 17 (a) | | - | 29,788 | | 29,788 |
| Property, plant and equipment (net) | 17 (a), (b), (c), (d), (e) | | 150,153 | (23,055) | | 127,098 |
| | | | 150,153 | 6,733 | | 156,886 |
| | | $ | 159,278 | 6,414 | $ | 165,692 |
| **Liabilities** | | | | | | |
| Account payable and accrued liabilities | | $ | 16,612 | - | $ | 16,612 |
| Bank debt | | | 24,558 | - | | 24,558 |
| Commodity price contracts - current portion | | | 1,252 | - | | 1,252 |
| | | | 42,422 | - | | 42,422 |
| Commodity price contracts | | | 619 | - | | 619 |
| Deferred price premium on flow-through shares | 17 (f) | | - | 769 | | 769 |
| Deferred income tax liability | 17 (f), (g) | | 1,840 | 2,052 | | 3,892 |
| Decommisioning liability | 17 (c) | | 8,970 | 2,842 | | 11,812 |
| | | | 11,429 | 5,663 | | 17,092 |
| **Shareholders' Equity** | | | | | | |
| Share capital | 17 (f) | | 106,193 | (908) | | 105,285 |
| Contributed surplus | 17 (d) | | 5,171 | (59) | | 5,112 |
| Deficit | | | (5,937) | 1,718 | | (4,219) |
| | | | 105,427 | 751 | | 106,178 |
| | | $ | 159,278 | 6,414 | $ | 165,692 |

*Reconciliation of condensed interim consolidated income statement for the period ended March 31, 2010*

| (all amounts in $000) | Notes | Canadian GAAP | Effect of transition to IFRS | IFRS |
|---|---|---|---|---|
| *Revenue* | | | | |
| Oil and natural gas revenue | | $ 16,840 | - | $ 16,840 |
| Royalties | | (3,258) | - | (3,258) |
| | | 13,582 | - | 13,582 |
| *Expenses* | | | | |
| Production and operating | | 5,195 | - | 5,195 |
| General and administrative | 17 (d) | 1,319 | (2) | 1,317 |
| Exploration and evaluation | 17 (a) | - | 430 | 430 |
| Finance expense | 17 (c) | 312 | (78) | 234 |
| Depletion and depreciation | 17 (e) | 6,653 | (2,083) | 4,570 |
| | | 13,479 | (1,733) | 11,746 |
| Income before income taxes | | 103 | 1,733 | 1,836 |
| Deferred income taxes | 17 (f), (g) | 50 | 507 | 557 |
| Income and comprehensive income for the period | | 53 | 1,226 | 1,279 |
| Deficit, beginning of period | | (2,310) | (2,758) | (5,068) |
| Deficit, end of period | | $ (2,257) | (1,532) | $ (3,789) |

*Reconciliation of consolidated income statement for the year ended December 31, 2010*

| (all amounts in $000) | Notes | Canadian GAAP | Effect of transition to IFRS | IFRS |
|---|---|---|---|---|
| *Revenue* | | | | |
| Oil and natural gas revenue | | $ 63,354 | - | $ 63,354 |
| Royalties | | (9,692) | - | (9,692) |
| Unrealized loss on commodity price contracts | | (1,871) | - | (1,871) |
| | | 51,791 | - | 51,791 |
| *Expenses* | | | | |
| Production and operating | | 22,394 | - | 22,394 |
| General and administrative | 17 (d) | 5,181 | (22) | 5,159 |
| Exploration and evaluation | 17 (a) | - | 1,964 | 1,964 |
| Gain on sale of properties | 17 (b) | - | (546) | (546) |
| Finance expense | 17 (c) | 1,563 | (365) | 1,198 |
| Depletion and depreciation | 17 (e) | 26,954 | (7,514) | 19,440 |
| | | 56,092 | (6,483) | 49,609 |
| Income (loss) before income taxes | | (4,301) | 6,483 | 2,182 |
| Deferred income taxes (reduction) | 17 (f), (g) | (674) | 2,007 | 1,333 |
| Income (loss) and comprehensive income (loss) for the period | | $ (3,627) | 4,476 | $ 849 |

*Reconciliation of cash flow statement for the period ended March 31, 2010:*

| (all amounts in $000) | Notes | Canadian GAAP | Effect of transition to IFRS | IFRS |
|---|---|---|---|---|
| Cash flows from operating activities: | | | | |
| Income for the period | | $ 53 | 1,226 | $ 1,279 |
| Adjustments for non-cash items: | | | | |
| Exploration and evaluation expense | 17 (a) | - | 430 | 430 |
| Depletion and depreciation | 17 (e) | 6,653 | (2,083) | 4,570 |
| Share based payments | 17 (d) | 90 | (2) | 88 |
| Finance expenses (accretion) | 17 (c) | 117 | (78) | 39 |
| Deferred income taxes | 17 (g) | 50 | 507 | 557 |
| Abandonment (expenditures) recovery | | (43) | - | (43) |
| Changes in non-cash working capital | | 1,001 | - | 1,001 |
| Cash from operating activities | | 7,921 | - | 7,921 |
| Cash flows from investing activities: | | | | |
| Capital expenditures | | (13,596) | - | (13,596) |
| Change in non-cash working capital | | (183) | - | (183) |
| Cash used in investing activities | | (13,779) | - | (13,779) |
| Cash flows from financing activites: | | | | |
| Exercise of stock options | | (8) | - | (8) |
| Proceeds from bank debt | | 5,866 | - | 5,866 |
| Cash from financing activities | | 5,858 | - | 5,858 |
| Change in cash | | - | - | - |
| Cash, beginning of period | | - | - | - |
| Cash, end of period | | $ - | - | $ - |

*Reconciliation of cash flow statement for the year ended December 31, 2010*

| (all amounts in $000) | Notes | Canadian GAAP | Effect of transition to IFRS | IFRS |
|---|---|---|---|---|
| Cash flows from operating activities: | | | | |
| Income (loss) for the period | | $ (3,627) | 4,476 | $ 849 |
| Adjustments for non-cash items: | | | | |
| Exploration and evaluation expense | 17 (a) | - | 1,964 | 1,964 |
| Depletion and depreciation | 17 (e) | 26,954 | (7,514) | 19,440 |
| Unrealized loss on commodity price contracts | | 1,871 | - | 1,871 |
| Gain on sale of properties | 17 (b) | - | (546) | (546) |
| Share based payments | 17 (d) | 901 | (22) | 879 |
| Finance expense (accretion) | 17 (c) | 516 | (365) | 151 |
| Deferred income taxes (reduction) | 17 (g) | (674) | 2,007 | 1,333 |
| Abandonment (expenditures) recovery | | (241) | - | (241) |
| Changes in non-cash working capital | | 453 | - | 453 |
| Cash from operating activities | | 26,153 | - | 26,153 |
| Cash flows from investing activities: | | | | |
| Capital expenditures | | (41,817) | - | (41,817) |
| Change in non-cash working capital | | 5,018 | - | 5,018 |
| Cash used in investing activities | | (36,799) | - | (36,799) |
| Cash flows from financing activites: | | | | |
| Issuance of common shares | | 9,656 | - | 9,656 |
| Exercise of stock options | | (571) | - | (571) |
| Proceeds from bank debt | | 1,561 | - | 1,561 |
| Cash from financing activities | | 10,646 | - | 10,646 |
| Change in cash | | - | - | - |
| Cash, beginning of period | | - | - | - |
| Cash, end of period | | $ - | - | $ - |

(all amounts in text and tables are in $000 except per share amounts, numbers of shares and options, and other exceptions as indicated)

(a) Exploration and evaluation expenditures

Under Canadian GAAP, PP&E included certain E&E expenditures incurred within established geographic areas. Under IFRS, E&E costs related to each license/prospect are initially capitalized within exploration and evaluation assets. The costs are accumulated in cost centres by well, field or exploration area pending determination of technical feasibility and commercial viability. The Company does not deplete E&E assets.

The asset will be transferred to PP&E if technical and economic feasibility have been established by proved reserve assignment. The asset will be expensed if it has been determined there is no future value. For the three months ended March 31, 2010 and year ended December 31, 2010, the Company expensed $430 and $1,964 related to pre-license costs and undeveloped land expiries.

The impact on the reclassification from the full cost pool to intangible exploration assets on the consolidated statements of financial position and consolidated statements of income for the periods ended January 1, 2010, March 31, 2010 and December 31, 2010 are as follows;

Consolidated Statement of Financial Position:

| | January 1, 2010 | March 31, 2010 | December 31, 2010 |
|---|---|---|---|
| Exploration and evaluation | 20,762 | 19,126 | 29,788 |
| Property, plant and equipment | (20,762) | (19,556) | (31,756) |
| Impact on total assets | - | (430) | (1,968) |

Consolidated Statement of Income:

| | January 1, 2010 | March 31, 2010 | December 31, 2010 |
|---|---|---|---|
| Exploration and evaluation expense | - | 430 | 1,964 |
| Impact on income | - | 430 | 1,964 |

(b) Divestitures of property, plant and equipment

Under Canadian GAAP, proceeds from the sale of crude oil and natural gas properties are applied against capital costs, with no gain or loss recognized, unless such a sale would change the rate of depletion and depreciation by 20 percent or more, in which case a gain or loss is recorded. Under IFRS, the gains or losses are recorded on the sale of crude oil and natural gas properties. The gain or loss is calculated as the difference between the proceeds and the net book value of the asset disposed. The impact of this change in accounting policy resulted in the following net gain recorded in the consolidated financial position and consolidated statement of income for the year ended December 31, 2010 as follows;

(all amounts in text and tables are in $000 except per share amounts, numbers of shares and options, and other exceptions as indicated)

Consolidated Statement of Financial Position:

| | January 1, 2010 | March 31, 2010 | December 31, 2010 |
|---|---|---|---|
| Property, plant and equipment | - | - | 546 |
| Impact on total assets | - | - | 546 |

Consolidated Statement of Income:

| | January 1, 2010 | March 31, 2010 | December 31, 2010 |
|---|---|---|---|
| Gain on sale of properties | - | - | 546 |
| Impact on income | - | - | 546 |

(c) Decommissioning liability

Under Canadian GAAP decommissioning obligations were discounted at a credit adjusted risk free rate of 8 percent. Under IFRS the estimated cash flow to abandon and remediate the wells and facilities has been risk adjusted therefore the provision is discounted at a risk free rate of 3 percent. Upon transition to IFRS this resulted in a $2,556 increase in the decommissioning obligations with a corresponding decrease in retained earnings (deficit). As a result of the lower discount rate, the Company recorded additional asset retirement additions to PP&E and lower related accretion costs. In addition, under Canadian GAAP accretion of the discount was included in depletion and depreciation, however is shown as financing expense under IFRS.

As a result of the change in the decommissioning obligation, the impact on the consolidated statement of financial position and consolidate statement of income for the period ended January 1, 2010, March 31, 2010 and December 31, 2010 are as follows:

Consolidated Statement of Financial Position:

| | January 1, 2010 | March 31, 2010 | December 31, 2010 |
|---|---|---|---|
| Property, plant and equipment | - | 216 | 651 |
| Decommissioning liability | 2,556 | 2,694 | 2,842 |
| Impact on deficit | (2,556) | (2,478) | (2,191) |

Consolidated Statement of Income:

| | January 1, 2010 | March 31, 2010 | December 31, 2010 |
|---|---|---|---|
| Finance expense | - | (78) | (365) |
| Impact on income | - | (78) | (365) |

(all amounts in text and tables are in $000 except per share amounts, numbers of shares and options, and other exceptions as indicated)

(d) Share based payments

Under Canadian GAAP, the Company recognized an expense related to their share based payments on a straight-line basis through the date of full vesting without incorporating a forfeiture multiple. Under IFRS, the Company is required to recognize the expense over the individual vesting periods for the graded vesting awards including an estimated forfeiture rate. Upon transition, the impact of estimating a forfeiture rate resulted in the following impact on the consolidated statements of financial position and consolidated statements of income for the periods ended January 1, 2010, March 31, 2010 and December 31, 2010 are as follows:

Consolidated Statement of Financial Position:

| | January 1, 2010 | March 31, 2010 | December 31, 2010 |
|---|---|---|---|
| Property, plant and equipment | - | - | (10) |
| Contributed surplus | (23) | (26) | (59) |
| Impact on deficit | 23 | 26 | 49 |

Consolidated Statement of Income:

| | January 1, 2010 | March 31, 2010 | December 31, 2010 |
|---|---|---|---|
| General and administrative | - | (2) | (22) |
| Impact on income | - | (2) | (22) |

(e) Depletion policy

Upon transition to IFRS, the Company adopted a policy of depleting oil and natural gas interests on a unit of production basis over proved plus probable reserves. Under this method, future development costs are added to the net book value of assets to be depleted. IFRS requires depletion and depreciation to be calculated based on individual components, which the Company has determined to be by area.

Under Canadian GAAP, the Company depleted total development and producing assets on a unit of production basis over total proved reserves.

As a result of the change in the policy of depleting oil and natural gas interests on a proved plus probable basis the impact on the consolidated statements of financial position and consolidated statements of income for the periods ended January 1, 2010, March 31, 2010 and December 31, 2010 are as follows:

Consolidated Statement of Financial Position:

| | January 1, 2010 | March 31, 2010 | December 31, 2010 |
|---|---|---|---|
| Property, plant and equipment | - | 2,083 | 7,514 |
| Impact on total assets | - | 2,083 | 7,514 |

(all amounts in text and tables are in $000 except per share amounts, numbers of shares and options, and other exceptions as indicated)

Consolidated Statement of Income:

| | January 1, 2010 | March 31, 2010 | December 31, 2010 |
|---|---|---|---|
| Depletion expense | - | (2,083) | (7,514) |
| Impact on income | - | (2,083) | (7,514) |

(f) Flow-through Shares

Under Canadian GAAP, the accounting treatment for flow-through shares is to record the full amount of the proceeds in share capital. When expenditures are incurred, the related tax affect is recorded to share capital and the future tax liability. Under IFRS, the amount initially recorded in share capital is limited to the amount of common shares that would have been issued on that date and the difference between the actual proceeds and the amount recorded in share capital is set up as a deferred price premium on flow-through shares. When the expenditures are incurred, the related deferred price premium on flow-through shares is reversed and the related tax affect is recorded to the future tax liability. The impact on this change in accounting policy resulted in recording a transitional adjustment to share capital and retained earnings of $890. This adjustment reversed previous flow-through renunciation adjustments made through share capital and recorded the related tax affect. During the first quarter of March 31, 2010, under Canadian GAAP, the Company recorded the related tax affect of $57 to share capital. Therefore, the Company adjusted the $57 to share capital and deferred income tax.

During the three months ended December 31, 2010, the Company issued 1,855,000 common shares on a flow-through basis and the Company estimated the premium to be $1.00/share. Therefore, under IFRS, the Company set up a deferred price premium on flow-through shares of $1,855 with an offsetting adjustment to share capital. During the fourth quarter of 2010, the Company incurred $5,865 of capital expenditures, which resulted in an adjustment to the deferred price premium by $1,086 and the related tax effect.

Consolidated Statement of Financial Position:

| | January 1, 2010 | March 31, 2010 | December 31, 2010 |
|---|---|---|---|
| Deferred price premium on flow-through shares | - | - | 769 |
| Deferred income tax liability | - | - | 1,496 |
| Share capital | 890 | 947 | (908) |
| Impact on deficit | 890 | 947 | 1,357 |

Consolidated Statement of Income:

| | January 1, 2010 | March 31, 2010 | December 31, 2010 |
|---|---|---|---|
| Deferred income taxes | - | 57 | 466 |
| Impact on income | - | 57 | 466 |

(all amounts in text and tables are in $000 except per share amounts, numbers of shares and options, and other exceptions as indicated)

(g) Income tax

Deferred income taxes have been adjusted to reflect the tax effect arising from the differences between IFRS and Canadian GAAP. The application of the IFRS adjustments for note 17 (a) through to (e) resulted in the following impact for the periods ended January 1, 2010, March 31, 2010 and December 31, 2010 as follows;

Consolidated Statement of Financial Position:

| | January 1, 2010 | March 31, 2010 | December 31, 2010 |
|---|---|---|---|
| Deferred income tax liability | (665) | (215) | 556 |
| Impact on deficit | (665) | (215) | 556 |

Consolidated Statement of Income:

| | January 1, 2010 | March 31, 2010 | December 31, 2010 |
|---|---|---|---|
| Deferred income taxes | - | 450 | 1,540 |
| Impact on income | - | 450 | 1,540 |

## CORPORATE INFORMATION

### BOARD OF DIRECTORS

**Stuart G. Clark** (1) (2) (3)
Chairman of the Board
Independent Businessman
Calgary, Alberta

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

**Malcolm T. D. Adams** (2) (4)
Vice President
Corporate Development
Surge Energy Inc.
Calgary, Alberta

**Kenneth H. F. Severs** (4)
President
Charob Resources Inc.
Calgary, Alberta

**James K. Wilson** (2) (3)
Managing Director
Walwil Resources Ltd.
Calgary, Alberta

**William H. Slavin** (3) (4)
Managing Director
ARC Financial Corp.
Calgary, Alberta

(1) Chairman of the Board
(2) Member of the Audit Committee
(3) Member of the Compensation, Nomination and Governance Committee
(4) 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

**Robert A. Phelps**
Vice President, Exploration

**Bryan P. Dozzi**
Vice President, Business Development

**Terry M. Manery**
Vice President and Controller

### 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

### 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

### ABBREVIATIONS

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

rockenergy INC.