

**Red Rock Energy Inc.**

**Financial Statements**

**For the three and nine months ended December 31, 2010 and 2009**

**MANAGEMENT'S COMMENTS ON  
UNAUDITED INTERIM FINANCIAL STATEMENTS  
NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS**

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim consolidated financial statements of Red Rock Energy Inc. (the "Company") have been prepared by and are the responsibility of the Company's management. The unaudited interim financial statements are prepared in accordance with accounting principles generally accepted in Canada and reflect management's best estimates and judgment based on information currently available.

The Company's independent auditor has not performed a review of these interim financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

Red Rock Energy Inc.  
Balance Sheets

	<i>December 31, 2010</i>	<i>March 31, 2010</i>
	<i>Unaudited, prepared by management.</i>	
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents (Note 4)	\$346,140	\$977,802
Goods and services taxes receivable	27,439	8,212
Deposits and prepaids	40,772	26,714
Note receivable (Note 5 )	22,000	20,000
	436,351	1,032,728
Mineral properties (Note 6)	7,981,667	7,686,979
Machinery and equipment (Note 6)	21,758	37,850
Building (Note 7)	44,745	49,185
<b>Total Assets</b>	<b>\$8,484,521</b>	<b>\$8,806,742</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$31,337	\$80,764
	31,337	80,764
<b>Future income tax (Note 9)</b>	<b>1,300,374</b>	<b>1,300,374</b>
	1,331,711	1,381,138
<b>Shareholders' equity</b>		
Common shares (Note 8 (a,b))	8,541,596	8,541,596
Contributed surplus (Note 8 (e))	1,125,823	1,115,754
Warrants (Note 8 (b, c))	299,550	299,550
Deficit	(2,814,159)	(2,531,296)
	7,152,810	7,425,604
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$8,484,521</b>	<b>\$8,806,742</b>
<i>Director "Sandy Loutitt"</i>		
<i>Director "David Pinkman"</i>		

The accompanying notes are part of the financial statements.

Red Rock Energy Inc.  
**Statements of Operations, Comprehensive loss and Deficit**

	<i>Three months ended December 31, 2010</i>	<i>Three months ended December 31, 2009</i>	<i>Nine months ended December 31, 2010</i>	<i>Nine months ended December 31, 2009</i>
	<i>Unaudited, prepared by management</i>			
<b>Interest and other income</b>	<b>\$3,824</b>	<b>\$500</b>	<b>\$23,613</b>	<b>\$1,508</b>
<b>Expenses</b>				
General and administration	83,751	55,249	266,158	237,791
Stock option compensation expense (Note 8 (d) )	-	-	10,069	11,261
Amortization	9,859	10,196	30,250	29,837
<b>Total expenses</b>	<b>93,610</b>	<b>65,445</b>	<b>306,477</b>	<b>278,889</b>
<b>Net Loss and comprehensive loss</b>	<b>(89,786)</b>	<b>(\$64,945)</b>	<b>(282,864)</b>	<b>(277,381)</b>
<b>Deficit - start of period</b>	<b>(2,724,373)</b>	<b>(2,486,312)</b>	<b>(2,531,295)</b>	<b>(2,273,876)</b>
<b>Deficit - end of period</b>	<b>(\$2,814,159)</b>	<b>(2,551,257)</b>	<b>(\$2,814,159)</b>	<b>(2,551,257)</b>
<b>Weighted average shares outstanding</b>	43,486,266	33,441,337	43,486,266	31,817,395
<b>Basic and diluted loss per share</b>	<b>(\$ 0.0021)</b>	<b>(\$ 0.0019)</b>	<b>(\$ 0.0065)</b>	<b>(\$ 0.0087)</b>

Red Rock Energy Inc.  
Statements of Cash Flow

	<i>Three months ended December 31, 2010</i>	<i>Three months ended December 31, 2009</i>	<i>Nine months ended December 31, 2010</i>	<i>Nine months ended December 31, 2009</i>
	<i>Unaudited - prepared by management</i>			
Cash flows related to the following activities				
<b>Operating</b>				
Net loss for the period	(\$89,786)	(\$64,945)	(\$282,864)	(\$277,381)
Adjustments for non cash items:				
Amortization	9,859	10,196	30,250	29,837
Stock based compensation	-	-	10,069	11,261
Change in non-cash working capital:				
Goods and services taxes receivable	(5,955)	19,260	(19,227)	33,193
Deposits and prepaids	(15,308)	(500)	(14,058)	23,898
Note receivable	-	-	(2,000)	-
Accounts payable and accrued liabilities	(16,646)	(43,677)	(49,426)	(94,510)
Cash used in operating activities	(117,836)	(\$79,666)	(327,256)	(\$273,702)
<b>Financing</b>				
Issuance of common shares and warrants (Note 8)	-	-	-	1,000,050
Share issuance costs (Note 8)	-	(3,935)	-	(27,989)
Cash used by financing activities	-	(3,935)	-	972,061
<b>Investing</b>				
Purchases of mineral properties, machinery, equipment and buildings	(109,466)	(44,105)	(304,406)	(25,963)
Accounts payable and accrued liabilities	-	-	-	(1,364,080)
Cash used in investing activities	(109,466)	(44,105)	(304,406)	(1,390,043)
<b>Net (decrease) increase in cash</b>	<b>(227,302)</b>	<b>(127,706)</b>	<b>(631,662)</b>	<b>(691,684)</b>
<b>Cash, beginning of period</b>	<b>\$573,442</b>	<b>329,184</b>	<b>977,802</b>	<b>893,162</b>
<b>Cash, end of period</b>	<b>\$346,140</b>	<b>\$201,478</b>	<b>\$346,140</b>	<b>201,478</b>
Supplementary information				
Interest paid	-	-	-	-
Taxes paid	-	-	-	-

The accompanying notes are part of the financial statements.

# Red Rock Energy Inc.

## Notes to the financial statements

*As at December 31, 2010, March 31, 2010 and for the three and nine months ended December 31, 2010 and December 31, 2009*

### **1. Business of the Company**

Red Rock Energy Inc. ("the Company") is a Canadian resource company and was established as an Alberta registered Company on April 12<sup>th</sup>, 2005. The Company is also registered in the province of Saskatchewan and the North West Territories. The Company's principal assets are mineral properties located in Saskatchewan. The Company is engaged in the acquisition, exploration and development of properties for the purpose of producing uranium. The ability of the Company to realize the costs it has incurred to date on these and other properties is dependent upon the discovery of economically recoverable reserves, the preservation of the Company's interest in the underlying mining claims, the ability to obtain necessary financing and attain profitable operations, or alternatively, upon the disposal of properties, or the Company's interests therein, on an advantageous basis.

The disclosures in these interim financial statements do not include the full disclosure required under generally accepted accounting principles in Canada for annual financial reporting and therefore should be read in conjunction with the audited annual financial statements for the year ended March 31, 2010. The Company uses the same methods and accounting policies as described in the March 31, 2010 audited financial statements as indicated in note 2 below. Operating results for the three and nine months ended December 31, 2010 are not indicative of the results that may be expected for the full year ending March 31, 2011.

### **2. Basis of operations**

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles as applicable to a going concern. Accordingly, they do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and liquidate its liabilities and commitments in other than the normal course of business and at amounts different from those in the accompanying financial statements. Although the Company has been successful in raising funds to date, there can be no assurance that adequate funding will be available in the future, or available under terms favourable to the Company. In the event the Company is not able to obtain adequate funding, there is uncertainty as to whether the Company will be able to maintain or complete the acquisition of its property interests. These financial statements do not reflect the adjustments to the carrying values of assets and liabilities that would be necessary if the Company were unable to obtain adequate financing. Changes in future conditions could require material write downs of the carrying values of certain assets.

The Company is in the process of developing its mineral properties and hence, mining property acquisition costs and related direct exploration and development expenditures, net of recoveries, are deferred until the properties are placed into production. These net costs will be amortized against income using the unit-of-production method based on estimated recoverable reserves if the properties are brought into commercial production, or written off if the properties are abandoned or the carrying value is determined to be in excess of possible recoverable amounts.

The recoverability of amounts shown for mining properties is dependent upon the discovery of economically recoverable reserves, confirmation of the Company's interest in the underlying mining claims, the ability of the Company to obtain financing to complete development of the properties, and on future profitability from production or proceeds from the disposition thereof.

# Red Rock Energy Inc.

## Notes to the financial statements

*As at December 31, 2010, March 31, 2010 and for the three and nine months ended December 31, 2010 and December 31, 2009*

On an annual basis, the Company reviews the carrying values of deferred mining property acquisition and exploration expenditures to assess whether there has been an impairment in value. The Company recognizes write-downs for impairment where the carrying value of a mining property exceeds its estimated long term net recoverable value. Recoverable value is estimated based upon current exploration results and upon management's assessment of the future probability of positive cash flows from the property or from the sale of the property.

### 3. Significant Accounting Policies

#### Basis of presentation

Except as noted below, these financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. The significant accounting policies are summarized as follows:

#### Building

The buildings are recorded at cost. Amortization is provided over expected useful life using the straight line method over 10 years.

#### Mineral properties

The Company is in the process of developing its mineral properties.

Mining property acquisition costs and related direct exploration and development expenditures, net of recoveries, are deferred until the properties are placed into production. These net costs will be amortized against income using the unit-of-production method based on estimated recoverable reserves if the properties are brought into commercial production, or written off if the properties are abandoned or the carrying value is determined to be in excess of possible recoverable amounts.

The recoverability of amounts shown for mining properties is dependent upon the discovery of economically recoverable reserves, confirmation of the Company's interest in the underlying mining claims, the ability of the Company to obtain financing to complete development of the properties, and on future profitability production or proceeds from the disposition thereof. On an annual basis, the Company reviews the carrying values of deferred mining property.

Management reviews and evaluates the carrying value of its mineral properties for impairment when events or changes in circumstances indicate that the carrying amount of the related asset may not be recoverable. If the total estimated future operating cash flows on an undiscounted basis are less than the carrying amount of the asset, an impairment loss is recognized and assets are written down to fair value which is normally determined using the discounted value of future cash flows. Where estimates of future net cash flows are not available and where other conditions suggest impairment, management assesses whether carrying value can be recovered by considering alternative methods of determining fair value. When it is determined that a mineral property is impaired it is written down to its estimated fair value.

#### Machinery and equipment

Machinery and equipment are recorded at cost and amortized straight line over 5 or 10 years which is the expected useful life. Office and computer equipment is recorded at cost and amortized on a declining balance at the rates of 20% to 33% per year.

# Red Rock Energy Inc.

## Notes to the financial statements

*As at December 31, 2010, March 31, 2010 and for the three and nine months ended December 31, 2010 and December 31, 2009*

### **Leases**

Leases entered into are classified as either capital or operating leases. Leases that transfer substantially all of the benefits and risks of ownership of property to the company are accounted for as capital leases. Equipment acquired under capital leases is depreciated over the period of expected use on the same basis as other similar property, plant and equipment. Rental payments under operating leases are expensed as incurred.

### **Basic and diluted earnings (loss) per share**

The basic earnings (loss) per share has been calculated based upon the weighted average number of common shares outstanding during the year. Diluted earnings (loss) per share considers the potential exercise of outstanding options, warrants and other convertible instruments. The treasury stock method is used to calculate diluted earnings per share and assumes any option proceeds would be used to purchase common shares at the average market price during the year.

### **Environmental expenditures**

The operations of the Company are subject to regulations governing the environment, including future site removal and reclamation costs for mining properties. The Company's policy is to meet standards set by those regulations and incur expenditures to comply with them.

### **Income taxes**

The Company accounts for income taxes using the asset and liability method of accounting. Under this method, future income tax assets and future income tax liabilities are recorded based on temporary differences between the financial reporting basis of the Company's assets and liabilities and their corresponding tax basis. The future benefits of income tax assets, including unused tax losses, are recognized subject to a valuation allowance, to the extent that it is more likely than not that such losses will be ultimately utilized. These future income tax assets and liabilities are measured using substantially enacted tax rates and laws that are expected to apply when the tax assets or liabilities are to be settled or realized.

### **Measurement uncertainty**

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management judgment include assessing the recoverability of mining properties and exploration costs, future income tax assets and liabilities, and the calculation of stock option compensation expense. The reported amounts and note disclosures are determined to reflect the most probable set of economic conditions and planned course of action. Actual results could differ from these estimates.

### **Flow-through shares**

The Company has financed a portion of its exploration activities through the issuance of flow through shares. Under the terms of the flow-through share agreements, the tax attributes of the related expenditures

## Red Rock Energy Inc.

### Notes to the financial statements

*As at December 31, 2010, March 31, 2010 and for the three and nine months ended December 31, 2010 and December 31, 2009*

are renounced to subscribers. To recognize the foregone tax benefits to the Company, the carrying value of the shares issued is reduced by the tax effect of the tax benefits renounced to subscribers. The Company recognizes the foregone tax benefit at the time of the renouncement, provided there is reasonable assurance the expenditures will be incurred.

### Stock-based compensation

The Company uses the fair value method for Stock-based compensation and other Stock-based payments. The fair value of each option is accounted for in operations, over the vesting period of the options, and the related credit is included in the contributed surplus. The Company's stock-based compensation plan is described in Note 8(d).

### Capital disclosures

The Company provides the following disclosures about an entity's capital, and how it is managed

(i) qualitative information about the entity's objectives, policies and processes for managing capital;

(ii) summary quantitative data about what it manages as capital;

(iii) whether during the period it complied with any externally imposed capital requirements to which it is subject; and

(iv) when it has not complied with such externally imposed capital requirements, the consequences of such non-compliance.

### Financial instruments

Held for trading assets are subsequently measured at fair value with the change in the fair value recognized in net income during the period.

Held-to-maturity assets are subsequently measured at amortized cost using the effective interest rate method.

Loans and receivables are subsequently measured at amortized cost using the effective interest rate method.

Available-for-sale assets are subsequently measured at fair value with the changes in fair value recorded in other comprehensive income.

### Financial liabilities

Held for trading liabilities are subsequently measured at fair value with the change in the fair value recognized in net income during the period.

The Company has classified its financial instruments as follows:

<u>Financial instrument</u>	<u>Classification</u>
Cash	Held for trading
Deposits and prepaids	Held for trading
Note receivable	Held to maturity
Accounts payable and accrued liabilities	Other liabilities

## Red Rock Energy Inc.

### Notes to the financial statements

*As at December 31, 2010, March 31, 2010 and for the three and nine months ended December 31, 2010 and December 31, 2009*

#### **Future accounting pronouncements**

#### **Business Combinations**

In January 2009, the CICA issued Sections 1582 – Business Combinations, 1601 – Consolidated Financial Statements and 1602 – Non-controlling Interests which replaces CICA Sections 1581 – Business Combinations and 1600 - Consolidated Financial Statements. Section 1582 establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under International Financial Reporting Standards (“IFRS”). Section 1582 is applicable for the Company’s business combinations with acquisition dates on or after January 1, 2011. Early adoption of this Section is permitted. Section 1601 together with Section 1602 establishes standards for the preparation of consolidated financial statements. Section 1601 is applicable for the Company’s interim and annual consolidated financial statements for its fiscal year beginning April 1, 2011. Early adoption of this Section is permitted. If the Company chooses to early adopt any one of these Sections, the other two Sections must also be adopted at the same time.

#### **International Financial Reporting Standards**

The Canadian Accounting Standards Board will require all public companies to adopt International Financial Reporting Standards (“IFRS”) for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Companies will be required to provide IFRS comparative information for the previous fiscal year. The convergence from Canadian GAAP to IFRS will be applicable for the Company for the first quarter of 2011 (i.e., the quarter ending June 30, 2011) when the Company will prepare both the current and comparative financial information using IFRS and the date of transition will be April 1, 2010 (i.e., for the purposes of providing comparative financial information at the date of convergence). The Company expects the transition to IFRS to impact financial reporting, business processes, and information systems. The Company will assess the impact of the transition to IFRS and will continue to invest in training and resources throughout the transition period to facilitate a timely conversion.

#### **4. Cash and cash equivalents**

Cash and cash equivalents includes cash on deposit and temporary investments with maturity dates of ninety days or less. \$111,000 (2010 - \$111,000) of cash is held as security over the borrowing limits of the corporate credit cards.

#### **5. Note Receivable**

The Company entered into an agreement with a drilling contractor who was a former employee whereby the Company advanced funds of \$20,000 to the drilling contractor by way of promissory note. The promissory note bears interest at the rate of 10% and was due December 31, 2008. However, repayment is secured by the assignment of rights under a drill bonus agreement. During the nine months ended December 31, 2010, an additional \$2,000 has been added to the note receivable on the basis of a sale of equipment from the Company to the drilling contractor.

## Red Rock Energy Inc.

### Notes to the financial statements

As at December 31, 2010, March 31, 2010 and for the three and nine months ended December 31, 2010 and December 31, 2009

## 6. Mineral Properties and Machinery and Equipment

Expenditures:

	December 31, 2010	March 31, 2010
Opening balance	\$7,724,829	\$7,618,479
Movement:		
Mineral properties - additions	304,406	607,878
Machinery & equipment - additions (disposals)	-	(475,380)
Machinery & equipment - depreciation	(25,809)	(26,148)
Closing balance	<u>\$8,003,426</u>	<u>\$7,724,829</u>
Allocation		
Mining claims	134,000	134,000
Mineral properties	7,847,668	7,552,979
Machinery & equipment (Note 10)	21,758	37,850
Closing balance	<u>\$8,003,426</u>	<u>\$7,724,829</u>

These properties are all located on Lake Athabasca, Northern Saskatchewan. The Company owns a 100% interest in a total of 33 claims covering 49,262 hectares. As the company is still in the development stage, no amortization has been provided on the mineral properties or the mining claims. In accordance with the agreement between the Company and the drilling contractor (see Note 9), the drill was bonused to the drilling contractor in the first quarter of fiscal 2010. Machinery and equipment includes vehicles and computer equipment which is being depreciated based on useful life.

## 7. Building

	December 31, 2010	March 31, 2010
Buildings, at cost	\$59,194	\$59,194
Less accumulated amortization	(14,449)	(10,009)
Closing balance	<u>\$44,745</u>	<u>\$49,185</u>

# Red Rock Energy Inc.

## Notes to the financial statements

As at December 31, 2010, March 31, 2010 and for the three and nine months ended December 31, 2010 and December 31, 2009

### 8. Shareholders' equity

#### Share capital

(a) **Authorized:** unlimited common shares  
unlimited preferred shares issuable in series

(b) **Issued and outstanding:**

Date of Issue	Price per Share	Number of Shares Issued	Gross Proceeds	Share Issue Costs	Future tax on flow through shares	Expired warrants	Net Proceeds
<b>Balance March 31 2009</b>		27,671,723	\$8,409,658	(\$941,643)	(\$1,437,620)	\$913,446	\$6,943,841
Issue common share June 11, 2009	\$0.18	5,000,000	\$900,000	(\$2,793)	-	-	\$897,207
Issue flow through shares July 29, 2009	\$0.13	769,614	\$100,050	(\$25,195)	(\$30,015)	-	\$44,840
Issue common shares and warrants March 29, 2010	\$0.10	10,044,928	\$1,004,493	(\$49,235)	-	-	\$955,258
Allocate portion of proceeds to warrants		-	(\$299,550)	-	-	-	(\$299,550)
<b>Balance March 31, 2010</b>		43,486,265	\$10,114,651	(\$1,018,866)	(\$1,467,635)	\$913,446	\$8,541,596
							\$0
<b>Balance December 31, 2010</b>		43,486,265	\$10,114,651	(\$1,018,866)	(\$1,467,635)	\$913,446	\$8,541,596

Effective June 11, 2009, the Company raised non cash proceeds of \$900,000 by issuing 5,000,000 common shares to UCR at \$.18 per share in settlement of purchase obligations related to the acquisition of exploration properties.

The Company announced on July 29, 2009 that it had completed, by way of a non-brokered private placement, the sale of 769,614 common shares ("Common Shares") at a price of \$0.13 per Common Share on a "flow through" basis for gross proceeds of \$100,050 (the "Offering"). Companies owned or controlled by a director of the Company acquired 384,614 of the Common Shares sold in the Offering. A finder's fee in the amount of \$3,504 was paid to an arm's length party who assisted with the placement of a portion of the shares. The hold period for the issued shares expires on November 29, 2009. Proceeds from the Offering were used to advance the Company's work program in its Uranium City, Saskatchewan camp.

The Company announced on March 29, 2010 it has closed a private placement raising \$1,004,493 by the issuance of 10,044,928 common share units (the "Units"). Each of the Units was sold for \$0.10 per Unit and comprised of one common treasury share and one warrant to purchase one-half of one common share. Each whole warrant has a term of 24 months and an exercise price of \$0.18 per share. Certain members of the Board of Directors participated in this private placement. Proceeds of the private placement will be used to fund a planned summer exploration program at Red Rock's uranium exploration property near Uranium City, Saskatchewan and to add to working capital.

# Red Rock Energy Inc.

## Notes to the financial statements

As at December 31, 2010, March 31, 2010 and for the three and nine months ended December 31, 2010 and December 31, 2009

### (c) Warrants

In connection with the private placement financing on March 29, 2010, 5,022,464 warrants were issued to participants. These warrants vested immediately and are exchangeable for one common share of the company at \$0.18 until March 29, 2012. The fair value of these warrants was estimated using the Black-Scholes option model with the following assumptions: expected dividend yield – 0%, expected volatility – 2%, risk - free interest rate of 4.5% and an expected life of two years. The value assigned to the warrants was \$299,550.

### (d) Stock option plan

On March 1st, 2010, the Company adjusted options granted to employees and consultants who are neither directors nor officers by cancelling 40,000 options that were issued in January and July of 2007 at a price of \$0.70 and replacing them with 40,000 fully vested options at a price of \$0.10 and an expiry date of March 1st, 2015. As the value of replaced options exceeded the value of the new options, no amount has been recorded on account of stock option compensation expense. However, the value of the replaced options of \$24,118 has been assigned as the value of the new options. An additional 310,000 options were granted to employees and consultants who are neither officers nor directors at a price of \$0.10 and an expiry date of March 1st, 2015. These options vest at the rate of 25% every six months from the grant date of March 1st, 2010. The fair value of these warrants was estimated using the Black-Scholes option model with the following assumptions: expected dividend yield – 0%, expected volatility – 241%, risk - free interest rate of 4.5% and an expected life of five years. The value assigned to the options was \$10,069.

The following table depicts the stock options transactions during the periods:

	December 31, 2010		March 31, 2010	
	Number of	Weighted	Number of	Weighted
	stock options	average	stock options	average
		exercise price		exercise price
		(\$)		(\$)
Balance, beginning of period	2,719,000	\$0.62	2,409,000	\$0.70
Cancelled	-	-	(40,000)	\$0.70
Granted	-	-	350,000	\$0.10
Balance, end of period	<u>2,719,000</u>	<u>\$0.62</u>	<u>2,719,000</u>	<u>\$0.62</u>

# Red Rock Energy Inc.

## Notes to the financial statements

As at December 31, 2010, March 31, 2010 and for the three and nine months ended December 31, 2010 and December 31, 2009

### (e) Contributed surplus

The following table reflects the stock options outstanding as at December 31, 2010:

Expiry Date	Exercise Price	Options Outstanding	Options Exercisable	Fair Value of Options Granted
January 22, 2012	\$0.70	1,584,000	1,584,000	\$ 845,715
July 16, 2012	\$0.70	485,000	485,000	87,089
August 7, 2012	\$0.70	300,000	300,000	158,832
March 1, 2015	\$0.10	350,000	117,500	34,187
		<u>2,719,000</u>	<u>2,486,500</u>	<u>\$ 1,125,823</u>

Stock options have been allocated as follows:

	December 31, 2010	March 31, 2010
Balance, beginning of period	\$1,115,754	\$1,104,493
Stock options granted		
Directors & officers	-	-
Consultants & employees	10,069	11,261
Balance, end of period	<u>\$1,125,823</u>	<u>\$1,115,754</u>

## 9. Income Taxes

The estimated taxable loss for nine months ended December 31, 2010 is \$ 272,795. The tax benefit of tax pools in excess of carrying values has not been recognized to the extent of the future tax renounced for the flow-through shares issued in fiscal 2006, fiscal 2008, fiscal 2009 and fiscal 2010. It cannot be reasonably estimated at this time, if it is more likely than not that the Company will realize the benefits from future income tax assets or the amounts owing from future income tax liabilities.

Consequently, the future recovery or loss arising from differences in tax values and accounting values has been reduced by a valuation allowance. The estimated valuation allowance will be adjusted in the period that it is determined that it is more likely than not that some portion of or all of the future tax assets or future tax liabilities will be realized.

At December 31, 2010, the Company had non-capital losses in Canada of approximately \$1,855,598 (\$1,582,803 – March 31, 2010) which are available under certain circumstances to reduce future taxable income. These losses expire in 2026 (\$12,440), 2027 (\$90,442), 2028 (\$666,303), 2029 (\$ 467,818), 2030 (\$345,800) and 2031 (\$ 272,795).

## 10. Commitments and contingencies

Pursuant to the issuance of 769,614 flow-through shares during the year ended March 31, 2010, the Company renounced and incurred \$100,050 on qualified exploration expenditures with an effective date of

## Red Rock Energy Inc.

### Notes to the financial statements

As at December 31, 2010, March 31, 2010 and for the three and nine months ended December 31, 2010 and December 31, 2009

December 31, 2009 in August 2009.

The Company entered into a leasing transaction for some heavy equipment with a leasing company. The lease term is for 60 months and began in March 2007. Annual payments over the next 2 years are as follows:

2011	29,448
2012	26,994
Total	<u>\$ 56,442</u>

The lease has been classified as an operating lease.

### 11. Related Party Transactions

A shareholder and director of the Company provided legal services to the Company. During the nine months ending December 31, 2010, fees and disbursements paid to this shareholder and director's law firm totaled \$ 13,168 (2010 - \$19,749). Estimated unbilled fees and disbursements at December 31, 2010 are nil.

An officer of the Company provided financial management services to the Company. During the nine months ending December 31, 2010, fees paid to this officer's company totaled \$18,000 (2010 - \$18,000). Estimated unbilled fees and disbursements at December 31, 2010 are nil.

A company controlled by a shareholder and director provided CEO services to the Company. During the nine months ending December 31, 2010, fees and disbursements paid to this shareholder and director's management company totaled \$90,000 (2010 - \$90,000). Estimated unbilled fees and disbursements at December 31, 2010 are nil.

All of the above transactions are in the normal course of operations and are measured at the exchange amount which is the amount of consideration established and agreed to by the related parties.

### 12. Capital Disclosures

The Company's objective when managing capital is to maintain its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders.

The Company includes equity, comprised of issued capital stock, warrants, contributed surplus and deficit, in the definition of capital.

The Company's primary objective with respect to its capital management is to ensure that it has sufficient cash resources to further exploration on its properties. To secure the additional capital necessary to pursue these plans, the Company may attempt to raise additional funds through the issuance of equity and warrants, or by securing strategic partners.

The Company is not subject to externally imposed capital requirements and there has been no change with respect to the overall capital risk management strategy during the nine months ended December 31, 2010.

## Red Rock Energy Inc.

### Notes to the financial statements

*As at December 31, 2010, March 31, 2010 and for the three and nine months ended December 31, 2010 and December 31, 2009*

### **13. Financial Risk Management**

The Company is exposed to liquidity risk by virtue of its activities. Liquidity risk is the risk that the Company will not be able to meet its obligations as they fall due.

The Company manages its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities. Senior management is also actively involved in the review and approval of planned expenditures.

As at December 31, 2010, the Company has accounts payable and accrued liabilities of \$31,337 due within 12 months and cash and cash equivalents of \$346,140. As a result the Company does not currently have liquidity risk nor is it dependent on raising additional capital.