

Red Rock Energy Inc.  
Financial Statements  
March 31, 2007



## **Auditors' Report**

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To the Shareholders  
Red Rock Energy Inc.

We have audited the balance sheets of Red Rock Energy Inc. as at March 31, 2007 and 2006 and the Statements of operations and deficit and cash flows for the periods then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at March 31, 2007 and 2006 and the results of its operations and cash flows for the periods then ended in accordance with Canadian generally accepted accounting principles.

**“Maldaner Crooks Watson”**  
Chartered Accountants

Calgary, Alberta  
July 26, 2007

Red Rock Energy Inc.  
Balance Sheets

	<i>31-Mar-07</i>	<i>31-Mar-06</i>
<b>Assets</b>		
<b>Current assets</b>		
Cash	\$5,342	\$17,156
Goods and services taxes receivable	14,305	4,615
Deposits and prepaids (Note 7)	90,588	-
	<b>110,235</b>	<b>21,771</b>
Mineral properties (Note 3)	414,916	233,254
Machinery and equipment (Note 3)	56,764	-
Building (Note 4)	18,463	1,350
<b>Total Assets</b>	<b>\$600,378</b>	<b>\$256,375</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$20,897	\$9,814
Due to shareholder (Note 8)	12,983	-
	<b>33,880</b>	<b>9,814</b>
Future income tax (Note 6)	33,000	37,620
	<b>66,880</b>	<b>47,434</b>
<b>Shareholders' equity</b>		
Common shares (Note 5 a,b)	616,703	221,381
Contributed surplus (Note 5 (d))	869,833	-
Broker warrants (Note 5 (c))	15,057	-
Deficit	(968,095)	(12,440)
	<b>533,498</b>	<b>208,941</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$600,378</b>	<b>\$256,375</b>

\_\_\_\_\_ Director

\_\_\_\_\_ Director





# Red Rock Energy Inc.

## Notes to the financial statements

*As at March 31, 2007, March 31, 2006 and for the twelve months ended March 31, 2007*

### **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 extra provincially 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.

In order to meet future expenditures and cover administrative costs, the Company may need to raise additional financing. 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. These financial statements have been prepared on a going concern basis that assumes the Company will be able to continue to realize its assets and discharge its liabilities in the normal course of business. 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.

### **2. Significant Accounting Policies**

#### **Basis of presentation**

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**

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

## Red Rock Energy Inc.

### Notes to the financial statements

*As at March 31, 2007, March 31, 2006 and for the twelve months ended March 31, 2007*

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 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.

### **Machinery and equipment**

Machinery and equipment is amortized over straight line 5 years which is the expected useful life.

### **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.

# Red Rock Energy Inc.

## Notes to the financial statements

As at March 31, 2007, March 31, 2006 and for the twelve months ended March 31, 2007

### 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 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 5(d).

## 3. Mineral properties & machinery & equipment

Expenditures:

	31-Mar-07	31-Mar-06
Opening balance	\$233,254	\$ -
Acquisition of mining claims	-	134,000
Qualifying resource expenditures	181,662	99,254
Machinery & equipment	56,764	-
Closing balance	<u>\$471,680</u>	<u>\$233,254</u>

# Red Rock Energy Inc.

## Notes to the financial statements

As at March 31, 2007, March 31, 2006 and for the twelve months ended March 31, 2007

Included in the acquisition of mining claims of \$134,000 is \$104,000 of mining properties acquired from related parties. The related parties were significant shareholders or directors of the Company at the time of the transactions. The transactions have been recorded at the exchange amount which is the amount agreed upon by both parties.

These properties are all located at the Athabasca Basin, Northern Saskatchewan. The Company owns a 100% interest in a total of 18 claims covering 11,807 hectares.

### 4. Building

	March 31, 2007	March 31, 2006
Buildings, at cost	\$ 19,193	\$1,500
Less accumulated amortization	(730)	(150)
Closing balance	<u>\$18,463</u>	<u>\$1,350</u>

### 5. Shareholders' equity

#### Share capital

(a) **Authorized:** unlimited common shares.

(b) **Issued and outstanding:**

Date of Issue	Price per Share	Number of Shares Issued*	Gross Proceeds	Share Issue Costs	Net Proceeds
12-Apr-05	\$0.00	4,165,000	\$1	\$	\$1
15-May-05	\$0.02	2,975,549	50,000	-	50,000
7-Jul-05	\$0.03	2,776,117	84,000	-	84,000
28-Oct-05	\$0.06	1,666,667	100,000	-	100,000
3-Mar-06	\$0.06	416,667	25,000	-	25,000
Less future tax on flow through shares		-	-	(37,620)	(37,620)
31-Mar-06		<u>12,000,000</u>	<u>259,001</u>	<u>(37,620)</u>	<u>221,381</u>
22-Sep-06	\$0.35	<u>1,371,723</u>	<u>480,103</u>	<u>(69,724)</u>	<u>410,379</u>
Broker Warrants		-	-	(15,057)	(15,057)
31-Mar-07		<u>13,371,723</u>	<u>\$739,104</u>	<u>(\$122,401)</u>	<u>\$616,703</u>

\* Number of shares issued reflects 60,000:1 share split effective May 3rd, 2006

## Red Rock Energy Inc.

### Notes to the financial statements

As at March 31, 2007, March 31, 2006 and for the twelve months ended March 31, 2007

- (i) On April 12, 2005, the Company issued 4,165,000 founders shares for cash proceeds of \$1.
- (ii) On May 15, 2005, the Company issued 2,975,549 common shares for cash proceeds of \$50,000.
- (iii) On July 7, 2005, the Company issued 2,776,117 common shares for cash proceeds of \$84,000.
- (iv) On October 28, 2005 the Company issued 1,666,667 flow-through common shares for total cash proceeds of \$100,000.
- (v) On March 3, 2006 the Company issued 416,667 common shares for total cash proceeds of \$25,000.
- (vi) On April 6, 2006, the Company entered into an agreement with Union Securities Ltd (Union) for a pre-IPO placement of common shares and an IPO offering of up to 2,000,000 units at a suggested price subject to market conditions of \$0.70 per unit and an offering of up to 2,000,000 flow-through shares at a suggested price subject to market conditions of \$0.70 per flow through share. The Company paid \$15,000 to Union on account of an initial corporate finance fee of \$10,000 and a \$5,000 legal retainer.
- (vii) On September 22, 2006, pursuant to the private placement, the Company issued a total of 1,371,723 common shares at \$0.35 per share for gross proceeds of \$480,103. Netted from the gross proceeds were cash commissions of \$18,000 and corporate finance fees of \$10,000 paid to Union as well as Union's legal fees and disbursements in the amount of \$10,006. Union also received 51,428 non-transferable broker's warrants. Each warrant can be exchanged for one common share of the Company at \$0.35 per share until September 22, 2008. The Company's share of legal fees, listing fees and disbursements for the brokered private placement totaled \$31,718.

#### (c) Broker warrants

	<u>Number of warrants</u>	<u>Average price (\$)</u>
Balance at March 31, 2006	-	-
Granted – September 22, 2006	51,428	0.35
Exercised	-	-
Balance, March 31, 2007	<u>51,248</u>	<u>0.35</u>

A summary of the outstanding broker warrants as at March 31, 2007 are as follows:

<u>Expiry Date</u>	<u>Exercise Price</u>	<u>Warrants Outstanding</u>	<u>Fair Value of Warrants</u>
September 22, 2008	\$0.35	51,428	\$15,057

In connection with the private placement financing, 51,428 non transferable broker warrants were issued to Union on September 22, 2006. These warrants vest immediately and can be exchanged for one common share of the company at \$0.35 until September 22, 2008. The fair value of these warrants was estimated using the Black-Scholes option model with the following assumptions: expected dividend yield – 0%, expected volatility – 194%, risk - free interest rate of 4.5% and an expected life of two years. The value assigned to the warrants was \$15,057 and recorded as share issue costs.

## Red Rock Energy Inc.

### Notes to the financial statements

As at March 31, 2007, March 31, 2006 and for the twelve months ended March 31, 2007

#### (d) Stock option plan

On January 22, 2007, the Company board of directors approved an incentive stock option plan (the "Stock Option Plan"). Under the Stock Option Plan, the number of Common Shares reserved for issuance upon the exercise of options shall not exceed 10% of the issued and outstanding Common Shares from time to time. Options shall be exercisable for a period of up to 5 years. The number of Common Shares reserved for issuance to any one person shall not exceed 5% of the issued and outstanding Common Shares, and the number of Common Shares reserved for issuance to all technical consultants will not exceed 2% of the issued and outstanding Common Shares. The following table depicts the stock options transactions during the year:

	<u>March 31, 2007</u>	
	<u>Number of stock options</u>	<u>Weighted average exercise price (\$)</u>
Balance, beginning of year	-	-
Granted	1,624,000	\$0.70
Balance, end of year	<u>1,624,000</u>	<u>\$0.70</u>

The fair value of these options was estimated using the Black-Scholes option model with the following assumptions: expected dividend yield – 0%, expected volatility – 100%, risk - free interest rate of 5.0 % and an expected life of five years. The value assigned to the options was \$869,833 and recorded as stock option compensation expense and credited to contributed surplus in fiscal 2007.

The following table reflects the stock options outstanding as at March 31, 2007:

<u>Expiry Date</u>	<u>Exercise Price</u>	<u>Options Outstanding</u>	<u>Options Exercisable</u>	<u>Fair Value of Options Granted</u>
January 22, 2012	\$0.70	1,624,000	1,624,000	\$ 869,833
		<u>1,624,000</u>	<u>1,624,000</u>	<u>\$ 869,833</u>

During the year ended March 31, 2007, 1,624,000 stock options were issued to consultants, directors, officers and employees of the Company. These options vested immediately.

# Red Rock Energy Inc.

## Notes to the financial statements

As at March 31, 2007, March 31, 2006 and for the twelve months ended March 31, 2007

### (f) Contributed Surplus

	<u>March 31, 2007</u>
Balance, beginning of year	\$ -
Stock options granted	
Directors & officers	682,369
Consultants & employees	<u>187,464</u>
Balance, end of year	<u><u>\$ 869,833</u></u>

### 6. Income Taxes

The following table reconciles the expected income tax recovery at the Canadian statutory income tax rate of 33% (2006 - 37.62%) to the amounts recognized in the statement of operations.

	<i>Year ended March 31, 2007</i>	<i>April 12, 2005 (incorporation date) to March 31, 2006</i>
Loss before provision for current income taxes	\$960,275	\$12,440
Expected income tax recovery at Canadian statutory income tax rates - 33% (2006 - 37.62%)	316,891	4,680
Adjustments to benefit resulting from:		
Stock based compensation	(287,045)	-
Effect of change in tax rates	4,105	-
Actual income tax recovery (expense)	<u>33,951</u>	4,680
Valuation allowance	(33,951)	(4,680)
Provision for income taxes	<u>\$ -</u>	<u>\$ -</u>

# Red Rock Energy Inc.

## Notes to the financial statements

As at March 31, 2007, March 31, 2006 and for the twelve months ended March 31, 2007

The tax effects of temporary differences that give rise to significant portions of the future tax assets/liabilities are as follows:

	March 31, 2007	March 31, 2006
Non-capital losses	\$33,951	\$4,680
Tax effects of flow through renunciation	(33,000)	(37,620)
Future income tax assets, before valuation allowance	951	(32,940)
Valuation allowance	(33,951)	(4,680)
Net future income tax liability	<u>(\$33,000)</u>	<u>(\$37,620)</u>

At March 31, 2007, the Company had non-capital losses in Canada of approximately \$102,882 (\$12,440 – March 31, 2006) which are available under certain circumstances to reduce future taxable income. These losses expire in 2026 (\$12,440) and 2027 (\$90,442).

### 7. Commitments

Pursuant to the flow-through issue described in *note 5*, the Company is required to spend \$100,000 on Canadian Exploration Expenditures in 2006. As of December 31, 2006, the Company had spent \$100,000 (\$99,254 – March 31, 2006) on Canadian Exploration Expenditures.

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 5 years are as follows:

2008	\$ 29,448
2009	29,448
2010	29,448
2011	29,448
2012	26,994
Total	<u>\$ 144,786</u>

The lease has been classified as an operating lease.

The Company entered into an agreement to purchase a drill for \$225,000 to be used in its exploration activities. A deposit of \$50,000 was paid to the vendor before March 31, 2007 and the balance paid during May 2007.

### 8. Related Party Transactions

A shareholder and director of the Company provided legal services to the Company. During the year ending March 31, 2007, fees and disbursements paid to this shareholder and director's law firm totaled \$ 25,145. There were no unbilled fees and disbursements at March 31, 2007.

# Red Rock Energy Inc.

## Notes to the financial statements

*As at March 31, 2007, March 31, 2006 and for the twelve months ended March 31, 2007*

The amount due to shareholder and director of \$12,983 ( 2006 - \$) is non interest bearing and payable on demand.

All of the above transactions are in the normal course of operations and are measured at the exchange amount (the amount of consideration established and agreed to by the related parties), which does not exceed the arm's length equivalent value for these services.

### **9. Financial Instruments**

#### **Fair value**

The carrying amounts of deposits, accounts payable and accrued liabilities approximates their fair value because of the short-term maturities of these amounts.

#### **Commodity price risk**

The ability of the Company to develop its mining properties and the future profitability of the Company is directly related to the market price of uranium.

### **10. Subsequent events**

On April 12, 2007, the Company raised gross proceeds of \$1,500,000 by way of a private placement of 2,500,000 units at \$0.60 per unit. These units were comprised of one Common Share and one common share purchase warrant entitling the holder thereof to acquire an additional Common Share from the treasury of the Company until April 12, 2008 at an exercise price of \$1.10. The Agent was paid a finder's fee of \$120,000 and received a warrant to purchase up to 200,000 of the aforementioned units for 12 months at an exercise price of \$0.60 per unit.

Subsequent to March 31, 2007, the Company approved plans to file a final prospectus and raised \$6,300,000 on a gross basis and \$5,526,000 after deduction of agent's commissions through the sale of 5,000,000 common shares ("Common Shares") to be issued on a "flow-through" basis and 4,000,000 ("Units") at a price of \$0.70 per Common Share and \$0.70 per Unit, with each Unit being comprised of one Common Share and one half of one common share purchase warrant. Each full warrant ("Warrant") entitles the holder thereof to purchase one additional Common Share from the treasury of the Company for a period of 12 months from July 4, 2007. The Company retained Union Securities Ltd. to act as agent on a commercially reasonable efforts basis in connection with the Offering.

Upon completion of the Offering, the Issuer granted to the Agent warrants entitling the Agent to purchase that 320,000 Agent's Units and 400,000 Common Shares which is equal to 8% of the number of Units and Flow Through Shares placed through the Offering, respectively, at an exercise price of \$0.71 per Unit and \$0.71 per Common Share exercisable for a period equal to 12 months from July 17, 2007, the date on which the Common Shares were listed on the Exchange.

On July 16, 2007 the Board of Directors of Red Rock approved the granting of options to officers, employees and consultants of the Company entitling them to acquire an aggregate of 485,000 common shares at an exercise price of \$0.70 per share. The options are generally exercisable for five years and will vest as to 25% semi-annually over two years.

**Red Rock Energy Inc.**

**Notes to the financial statements**

*As at March 31, 2007, March 31, 2006 and for the twelve months ended March 31, 2007*

On July 17, 2007, the Company's common shares were listed and posted for trading on the TSX Venture Exchange under the trading symbol "RRK".