

**Red Rock Energy Inc.**

**Financial Statements**

**For the three months ended June 30, 2011 and 2010**

## **Notice of No Auditor Review of Condensed Consolidated Financial Statements**

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed these unaudited condensed consolidated financial statements as at and for the three months ended June 30, 2011 and 2010.

Red Rock Energy Inc.

**Balance Sheets**

	<i>June 30, 2011    March 31, 2011</i>	
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents (Note 6)	\$571,384	\$262,409
Goods and services taxes receivable	9,941	-
Deposits and prepaids	36,011	36,011
Note receivable (Note 7 )	22,500	22,000
	639,836	320,420
Exploration and evaluation assets		
Mineral properties (Note 8)	8,051,648	8,009,221
Oil and gas properties	125,886	-
Machinery and equipment (Note 8)	20,651	23,350
Building (Note 9)	41,786	43,265
<b>Total Assets</b>	<b>\$8,879,807</b>	<b>\$8,396,256</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$23,563	\$29,158
Term Loan (Note 10)	644,907	-
	668,470	29,158
<b>Deferred income tax (Note 12)</b>	<b>1,255,533</b>	<b>1,255,533</b>
	<b>1,924,003</b>	<b>1,284,691</b>
<b>Shareholders' equity</b>		
Common shares (Note 11 (a,b))	9,929,228	9,929,228
Contributed surplus (Note 11 (e))	1,286,105	1,283,631
Warrants (Note 10, 11 (b, c))	347,164	268,072
Deficit (Note 18)	(4,606,693)	(4,369,366)
	6,955,804	7,111,565
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$8,879,807</b>	<b>\$8,396,256</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 June 30, 2011</i>	<i>Three months ended June 30, 2010</i>
<i>Unaudited, prepared by management</i>		
<b>Interest and other income</b>	<b>\$717</b>	<b>\$11,001</b>
<b>Expenses</b>		
General and administration	117,910	82,561
Exploration and evaluation expenses	102,394	-
Interest expense (Note 10)	5,426	-
Stock option compensation expense (Note 11 (d) )	2,474	-
Amortization	9,840	10,196
<b>Total expenses</b>	<b>238,044</b>	<b>92,757</b>
<b>Loss before future tax recovery</b>	<b>(237,327)</b>	<b>(81,756)</b>
<b>Future tax recovery</b>	<b>-</b>	<b>-</b>
<b>Net loss and comprehensive loss</b>	<b>(237,327)</b>	<b>(81,756)</b>
<b>Deficit - start of period</b>	<b>(4,369,366)</b>	<b>(3,792,449)</b>
<b>Deficit - end of period</b>	<b>(4,606,693)</b>	<b>(3,874,205)</b>
<b>Weighted average shares outstanding</b>	43,640,984	35,969,211
<b>Basic and diluted loss per share</b>	(\$ 0.005)	(\$ 0.0023)

Red Rock Energy Inc.  
**Statements of Cash Flow**

	<i>Three months ended June 30, 2011</i>	<i>Three months ended June 30, 2010</i>
	<i>Unaudited, prepared by management</i>	
Cash flows related to the following activities		
<b>Operating</b>		
Net loss for the period	(\$237,327)	(\$81,756)
Adjustments for non cash items:		
Depreciation and amortization	9,840	10,196
Amortization of debt issuance costs and accretion	2,960	-
Stock based compensation	2,474	-
Change in non-cash working capital:		
Goods and services taxes receivable	(9,941)	(7,539)
Deposits and prepaids	-	3,100
Note receivable	(500)	-
Accounts payable and accrued liabilities	(5,595)	(5,870)
Cash used in operating activities	(238,089)	(\$81,869)
<b>Financing</b>		
Issuance of debt	670,908	-
Issuance of warrants	79,092	-
Debt issue costs	(28,961)	-
Share issue costs (Note 10)	-	(34,000)
Cash used by financing activities	721,039	(34,000)
<b>Investing</b>		
Purchases of mineral properties, machinery, equipment and buildings	(48,089)	(121,162)
Purchases of oil and gas properties	(125,886)	-
Cash used in investing activities	(173,975)	(121,162)
<b>Net (decrease) increase in cash</b>	<b>308,975</b>	<b>(237,031)</b>
<b>Cash, beginning of period</b>	<b>262,409</b>	<b>977,802</b>
<b>Cash, end of period</b>	<b>\$571,384</b>	<b>740,771</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 June 30, 2011 and June 30, 2010 and for the three months ended June 30, 2011 and June 30, 2010*

### 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 and its subsidiary are registered in the province of Saskatchewan, British Columbia and the North West Territories. The Company's principal assets are mineral properties located in Saskatchewan and oil and gas properties located in British Columbia. The Company is engaged in the acquisition, exploration and development of properties for the purpose of producing uranium and oil and gas. 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.

At June 30, 2011, the Company had a working capital surplus of \$616,273 (March 31, 2011 – surplus \$291,262) and an accumulated deficit of \$4,606,693 (March 31, 2011 –\$4,369,366). The Company's ability to continue its operations is dependent on the Company's success in developing its mineral and oil and gas interests, obtaining required funds to continue exploration activities and attaining profitable operations. The Company plans to meet its future expenditures and obligations by raising funds through private placements and controlling expenditures over the next twelve months.

These unaudited consolidated condensed financial statements have been prepared on the basis that the Company will be able to discharge its obligations and realize its assets in the normal course of business at the values at which they are carried in these condensed consolidated financial statements, and that the Company will be able to continue its business activities. Management believes that steps being taken will enable the Company to obtain additional capital as its commitments become due. However, there is no certainty that the Company will be able to continue as a going concern, in which case the Company may not be able to meet its obligations as they come due or realize its assets at the amounts at which they are carried in these financial statements. Should the going concern assumption not be appropriate, certain assets and liability amounts would require adjustment and reclassification and such adjustments may be significant.

### 2. Basis of operations

The Company is in the process of developing its mineral and oil and gas properties and hence, mining and oil and gas 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 and proved 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.

On an annual basis, the Company reviews the carrying values of its exploration and evaluation assets to assess whether there has been an impairment in value. The Company recognizes write-downs for impairment where the carrying value of a mining or oil and gas property exceeds its estimated long term net recoverable value. Recoverable value is estimated based upon current exploration results and upon

# Red Rock Energy Inc.

## Notes to the financial statements

*As at June 30, 2011 and June 30, 2010 and for the three months ended June 30, 2011 and June 30, 2010*

management's assessment of the future probability of positive cash flows from the property or from the sale of the property.

### 3. Basis of preparation

#### (a) Statement of compliance:

These condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). These condensed consolidated financial statements were authorized for issue by the Board of Directors on September 27, 2011.

#### (b) Basis of presentation:

The preparation of condensed consolidated financial statements in conformity with IAS 34 Interim Financial Reporting requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. These interim financial statements include all of the information required for first-time adoption of IFRS.

The preparation of these condensed consolidated financial statements resulted in changes to the accounting policies as compared with the most recent annual consolidated financial statements prepared under Canadian Generally Accepted Accounting Principles ("GAAP"). The accounting policies set out in Note 4 have been applied consistently to all periods presented in these condensed consolidated financial statements. They also have been applied in preparing an opening IFRS statement of financial position at April 1, 2010 for the purposes of the transition to IFRS, as required by IFRS 1 First Time Adoption of International Financial Reporting Standards ("IFRS 1"). The impact of the transition from GAAP to IFRS is explained in Note 18.

#### (c) Basis of measurement:

The financial statements have been prepared on the historical cost basis except for held for trading financial assets which are measured at fair value with changes in fair value recorded in the statement of loss.

The methods used to measure fair values are discussed in Note 5.

#### (d) Functional and presentation currency:

These financial statements are presented in Canadian dollars, which is the Company's functional currency.

#### (e) Use of estimates and judgments:

The preparation of financial statements in conformity with IFRS requires management to make judgments, 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 judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is included in the following notes:

# Red Rock Energy Inc.

## Notes to the financial statements

*As at June 30, 2011 and June 30, 2010 and for the three months ended June 30, 2011 and June 30, 2010*

- Note 5 - determination of fair values;
- Note 8 - exploration and evaluation assets;
- Note 11 - measurement of warrants;
- Note 11 - measurement of share-based payments; and
- Note 12 - valuation allowance applied to deferred tax assets.

In the process of applying the Company's accounting policies, management has made the following judgments, apart from those involving estimates, which may have the most significant effect on the amounts recognized in the financial statements.

### (i) Impairment indicators and calculation of impairment:

At each reporting date, the Company assesses whether or not there are circumstances that indicate a possibility that the carrying values of exploration and evaluation assets and property and equipment are not recoverable, or impaired. Such circumstances include incidents of physical damage, deterioration of commodity prices, changes in the regulatory environment, or increases in estimates of costs required to reach technical feasibility and related estimates of proved and probable reserves.

### (ii) Income taxes:

The Company recognizes deferred income tax assets to the extent that it is probable that taxable profit will be available to allow the benefit of that deferred income tax asset to be utilized. Assessing the recoverability of deferred income tax assets requires the Company to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the deferred income tax assets recorded at the reporting date could be impacted. Additionally, future changes in tax laws in the jurisdictions in which the Company operates could limit the ability of the Company to obtain tax deductions in future periods.

### (iii) Contingencies:

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.

## 4. Significant Accounting Policies

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

### (a) Basis of consolidation:

#### (i) Subsidiaries:

The Company has one wholly-owned subsidiary - Red Rock Projects Inc. Subsidiaries are entities controlled by the Company. 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.

## Red Rock Energy Inc.

### Notes to the financial statements

*As at June 30, 2011 and June 30, 2010 and for the three months ended June 30, 2011 and June 30, 2010*

The purchase method of accounting is used to account for acquisitions of subsidiaries and assets that meet the definition of a business under IFRS. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the identifiable assets, liabilities and contingent liabilities acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized immediately in the statement of comprehensive loss.

#### (ii) Transactions eliminated on consolidation:

Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements.

#### (c) Financial instruments:

##### (i) Non-derivative financial instruments:

Non-derivative financial instruments comprise cash, trade and other receivables, mineral property security deposits, investment and trade and other payables. Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below:

##### Financial assets at fair value through profit or loss

An instrument is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's risk management or investment strategy. Upon initial recognition, attributable transaction costs are recognized in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

The Company has classified cash and the investment as fair value through profit or loss.

##### Other

Other non-derivative financial instruments, such as trade and other receivables, mineral property security deposits and trade and other payables are measured at amortized cost using the effective interest method, less any impairment losses. Due to the short-term nature of these non-derivative financial instruments, their carrying values approximate fair value.

##### (ii) Derivative financial instruments:

The Company has not entered into any financial derivative contracts.

##### (iii) Share capital:

## Red Rock Energy Inc.

### Notes to the financial statements

*As at June 30, 2011 and June 30, 2010 and for the three months ended June 30, 2011 and June 30, 2010*

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.

#### (d) Property and equipment:

Property and equipment are recorded at cost. Depreciation is determined using the straight line method over the estimated service lives of the assets at the following annual rates:

Buildings	10%
Office equipment	20%
Vehicles	20%
Computer equipment	33%
Computer software	100%

Depreciation methods, service lives and residual values are reviewed at each reporting date.

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.

#### (e) Exploration and evaluation assets:

Exploration and evaluation expenditures include the costs of acquiring licenses, costs associated with exploration and evaluation activity, and the acquisition date fair value of exploration and evaluation assets acquired in a business combination. Exploration and evaluation expenditures are capitalized as exploration and evaluation ("E&E") assets. Costs incurred before the Company has obtained the legal rights to explore an area are recognized in profit or loss.

Acquisition costs, including general and administrative costs, are only capitalized to the extent that these costs can be related directly to operational activities in the relevant area of interest where it is considered likely to be recoverable by future exploitation or sale or where the activities have not reached a stage which permits a reasonable assessment of the existence of reserves.

Where the Company's exploration commitments for a mineral or oil and gas property are performed under option agreements with a third party, the proceeds of option payments under such agreements are applied to the mineral property to the extent costs are incurred. The excess, if any, is recorded to the statement of loss. Provincial government mining credits are applied against the related mineral properties.

E&E assets are assessed for impairment only when facts and circumstances suggest that the carrying amount of an E&E asset may exceed its recoverable amount.

Industry specific indicators for an impairment review arise typically when one of the following circumstances applies:

- Substantive expenditure on further E&E activities is neither budgeted nor planned;
- Title to the asset is compromised;
- Adverse changes in the taxation and regulatory environment and ;
- Adverse changes in variations in commodity prices and markets.

## Red Rock Energy Inc.

### Notes to the financial statements

*As at June 30, 2011 and June 30, 2010 and for the three months ended June 30, 2011 and June 30, 2010*

Once the technical feasibility and commercial viability of the extraction of mineral resources and oil and gas properties in an area of interest are demonstrable, E&E assets attributable to that area of interest are first tested for impairment and then reclassified to mining or oil and gas property and development assets within property and equipment. To date, none of the Company's mineral or oil and gas properties have demonstrated technical feasibility and commercial viability.

Recoverability of the carrying amount of any E&E assets is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas of interest.

(f) Impairment:

(i) Financial assets:

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 the statement of loss.

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 profit or loss.

(ii) Non-financial assets:

The carrying amounts of the Company's non-financial assets, other than E&E assets and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. As at June 30, 2011, the Company did not have any other non-financial assets.

(g) Share based payments:

The grant date fair value of options granted to employees is recognized as compensation expense, within general and administrative expenses, with a corresponding increase in contributed surplus over the vesting period. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that vest.

(h) Decommissioning obligation:

The Company's activities give rise to dismantling, decommissioning and site disturbance remediation activities. Provision is made for the estimated cost of site restoration and capitalized in the relevant asset category. The Company's asset retirement obligation is measured at the present value of management's best estimate of expenditure required to settle the present obligation at the statement of financial position date.

## Red Rock Energy Inc.

### Notes to the financial statements

*As at June 30, 2011 and June 30, 2010 and for the three months ended June 30, 2011 and June 30, 2010*

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 provision 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 asset retirement obligation are charged against the provision to the extent the provision was established.

To date, the Company's mineral properties and oil and gas properties have not advanced past the exploration stage and, accordingly, all site restoration costs are expensed as incurred. Mineral property security deposits have been paid to the Government of Saskatchewan and are refundable upon completion of required expenditures.

#### (i) Finance expense:

Finance expense comprises interest expense on term loans, late payments of trade and other payables, and impairment losses recognized on financial assets.

#### (j) Income tax:

Income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss 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 statement of financial position 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.

#### (k) 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.

# Red Rock Energy Inc.

## Notes to the financial statements

*As at June 30, 2011 and June 30, 2010 and for the three months ended June 30, 2011 and June 30, 2010*

### (l) Per share amounts

Basic earnings per share is calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share is determined by adjusting the loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of dilutive instruments such as warrants and options granted to employees.

### (m) Segment reporting:

As at June 30, 2011, the Company operated in two reportable operating segments – the exploration and evaluation of mineral resource properties in Canada and the exploration and evaluation of oil and gas properties in Canada.

### (n) New standards and interpretations adopted:

June 30, 2011 is the Company's first reporting period under IFRS. Accounting standards effective for periods beginning on or after January 1, 2011 have been adopted as part of the transition to IFRS.

### (o) New standards and interpretations not yet adopted:

As of January 1, 2013, the Company will be required to adopt IFRS 9, “Financial Instruments”, as the first phase of the IASB’s project to replace IAS 39, “Financial Instruments: Recognition and measurement”. The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value. The adoption of this standard should not have a material impact on the Company’s consolidated financial statements.

In May 2011, the IASB issued the following standards which have not yet been adopted by the Company:

- IFRS 10 Consolidated Financial Statements (IFRS 10),
- IFRS 11 Joint Arrangements (IFRS 11),
- IFRS 12 Disclosure of Interests in Other Entities (IFRS 12),
- IAS 27 Separate Financial Statements (IAS 27),
- IFRS 13 Fair Value Measurement (IFRS 13),
- IAS 28 Investments in Associates and Joint Ventures (amended) (IAS 28).

Each of the new standards is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The Company has not yet begun the process of assessing the impact that the new and amended standards will have on its financial statements or whether to early adopt any of the new requirements.

## 5. Determination of fair values

A number of the Company’s accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

# Red Rock Energy Inc.

## Notes to the financial statements

*As at June 30, 2011 and June 30, 2010 and for the three months ended June 30, 2011 and June 30, 2010*

- Level 1 Fair Value Measurements – Level 1 fair value measurements are based on unadjusted quoted market prices.
- Level 2 Fair Value Measurements – Level 2 fair value measurements are based on valuation models and techniques where the significant inputs are derived from quoted indices.
- Level 3 Fair Value Measurements – Level 3 fair value measurements are based on unobservable information.

(a) Cash, trade and other receivables, deposits and trade and other payables:

The fair value of cash, trade and other receivables, mineral property security deposits and trade and other payables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. At June 30, 2011 and March 31, 2011, the fair value of these balances approximated their carrying value due to their relatively short terms to maturity.

(b) Stock options and warrants:

The fair values of stock options and warrants are measured based on a Level 2 fair value measurement using a Black Scholes option pricing model. Measurement inputs include share price on measurement date, exercise price of the instrument, forfeiture rate, 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 government bonds).

## 6. 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 (2011 - \$111,000) of cash is held as security over the borrowing limits of the corporate credit cards.

## 7. 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 and is due on demand.

## Red Rock Energy Inc.

### Notes to the financial statements

As at June 30, 2011 and June 30, 2010 and for the three months ended June 30, 2011 and June 30, 2010

## 8. Exploration and Evaluation assets: Mineral and Oil and Gas Properties Machinery and Equipment

Expenditures:

	June 30, 2011	March 31, 2011
Opening balance	\$8,032,571	\$7,724,829
Movement:		
Oil and gas properties - additions	125,886	
Mineral properties - additions	42,427	322,242
Machinery & equipment - additions	5,660	14,532
Machinery & equipment - depreciation	(8,360)	(29,032)
Closing balance	<u>\$8,198,184</u>	<u>\$8,032,571</u>
Allocation		
Oil and gas properties	125,886	-
Mining claims	134,000	134,000
Mineral properties	7,917,647	7,875,221
Machinery & equipment	<u>20,651</u>	<u>23,350</u>
Closing balance	<u>\$8,198,184</u>	<u>\$8,032,571</u>

These mineral 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.

On May 25, 2011, the Company announced that it had registered a Company in the province of British Columbia under the name Red Rock Projects Inc. to pursue petroleum and natural gas exploration and production opportunities.

On June 6, 2011, the Company closed a transaction under which it acquired up to 4200 acres of prospective oil and gas rights in North East British Columbia. The agreement was with a regional, mid-tier oil and gas company and the properties which are the subject of the acquisition include two existing well bores and related well and processing equipment. As soon as local conditions permit, Red Rock intends to re-enter and recomplete each of these well bores with the intent of evaluating the potential for by-passed hydrocarbon production. One of the acquired well bores has been designated as the discovery well for a Bluesky oil pool. Concurrent with this land acquisition, Red Rock has also been granted a seismic option on

## Red Rock Energy Inc.

### Notes to the financial statements

As at June 30, 2011 and June 30, 2010 and for the three months ended June 30, 2011 and June 30, 2010

the contiguous four section block which will allow it to earn a 100% working interest in that block, subject to a non-convertible overriding royalty to the existing land owners.

### 9. Building

	June 30, 2011	March 31, 2011
Buildings, at cost	\$59,194	\$59,194
Less accumulated amortization	<u>(17,408)</u>	<u>(15,929)</u>
Closing balance	<u>\$41,786</u>	<u>\$43,265</u>

### 10. Term Loan

On June 20, 2011, the Company drew \$750,000 on a loan made available from a private arm's length Alberta corporation. Interest on the loan accrues at the rate of 12% per annum and is payable every two months. The loan has a term of one year, and is secured by a first charge against the Company's Saskatchewan mineral properties only, which are prospective for uranium. As additional consideration, the Company issued to the lender warrants to acquire common shares. A commission of \$28,961 was paid in connection with the financing.

The warrants are non-transferrable and entitle the Lender to acquire up to 468,750 Common Shares at an exercise price of \$0.25 per share for a period of 12 months from the closing of the transaction which occurred on June 20, 2011. The Warrants, and any shares obtained on the exercise there are subject to a 4 month hold period which expires on about October 20, 2011.

The fair value of the warrants was estimated using the Black-Scholes option model with the following assumptions: expected dividend yield – 0%, expected volatility – 226%, risk - free interest rate of 4.5% and an expected life of one year. The value assigned to the warrants was \$79,092.

As the term loan contains features that are considered debt and equity, an allocation has been made to equity based on the value of the warrant. This allocation was as follows at the issue date of June 20, 2011 based on the Company's valuation of the warrant using the Black Scholes option pricing model:

Description	At issue date - June 20, 2011	Accrued interest	Accretion on term loan	Unamortized debt issuance costs	Total
Accounts payable		2,466	-	-	2,466
Term Loan	670,908	-	2,167	(28,168)	644,907
Warrant	<u>79,092</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>79,092</u>
Total	<u>750,000</u>	<u>2,466</u>	<u>2,167</u>	<u>(28,168)</u>	<u>726,465</u>

The effective interest rate incurred on the term loan during the period was 25.2%.

# Red Rock Energy Inc.

## Notes to the financial statements

As at June 30, 2011 and June 30, 2010 and for the three months ended June 30, 2011 and June 30, 2010

### 11. 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 or exercised warrants	Net Proceeds
<b>Balance March 31, 2010</b>		43,486,265	\$10,114,651	(\$1,018,866)	(\$1,467,635)	\$913,446	\$8,541,596
<b>IFRS adjustment - April 1, 2010 (Note 18)</b>					\$1,261,154		\$1,261,154
<b>Balance at April 1, 2010</b>							\$9,802,750
Exercise warrants - March 15, 2011	\$0.18	527,778	\$95,000	-	-	\$31,478	\$126,478
<b>Balance March 31, 2011 and June 30, 2011</b>		44,014,043	\$10,209,651	(\$1,018,866)	(\$206,481)	\$944,924	\$9,929,228

#### (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 – 264%, risk - free interest rate of 4.5% and an expected life of two years. The value assigned to the warrants was \$299,550. On March 15, 2011, 527,778 warrants were exercised for gross proceeds of \$95,000.

#### (d) Stock option plan

On February 1st, 2011, the Company issued 1,050,000 fully vested options to consultants who are neither directors nor officers at a price of \$0.15 and an expiry date of February 1st, 2016. The fair value of these warrants was estimated using the Black-Scholes option model with the following assumptions: expected dividend yield – 0%, expected volatility – 264%, risk - free interest rate of 4.5% and an expected life of five years. The value assigned to the options was \$157,062.

On March 1st, 2011, the Company issued 150,000 fully vested options to a consultant who is neither a director nor an officer at a price of \$0.23 and an expiry date of March 1st, 2013. The fair value of these warrants was estimated using the Black-Scholes option model with the following assumptions: expected dividend yield – 0%, expected volatility – 225%, risk - free interest rate of 4.5% and an expected life of two years. The value assigned to the options was \$32,470.

On June 6, 2011, the Company issued options to a consultant to acquire an aggregate of 150,000 common shares of the Company. These options will: (i) vest as to one twelfth per month during the first 12 months following the date of grant; (ii) be exercisable at a price of \$0.20 per share, being the closing price on June 3, 2011, until June 6, 2016; and (iii) expire 30 days after the expiration of the governing consulting agreement.

# Red Rock Energy Inc.

## Notes to the financial statements

As at June 30, 2011 and June 30, 2010 and for the three months ended June 30, 2011 and June 30, 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 – 225%, risk - free interest rate of 4.5% and an expected life of five years. The value assigned to the options was \$2,474

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

	June 30, 2011		March 31, 2011	
	Number of stock options	Weighted average exercise price (\$)	Number of stock options	Weighted average exercise price (\$)
Balance, beginning of period	3,594,000	\$0.62	2,719,000	\$0.62
Cancelled	-	-	(325,000)	(0.52)
Granted	150,000	0.20	1,200,000	0.16
Balance, end of period	<u>3,744,000</u>	<u>\$0.60</u>	<u>3,594,000</u>	<u>\$0.48</u>

### (e) Contributed surplus

The following table reflects the stock options outstanding as at June 30, 2011:

Expiry Date	Exercise Price	Options Outstanding	Options Exercisable	Fair Value of Options Granted
22-Jan-12	\$0.70	1,599,000	1,599,000	\$856,443
16-Jul-12	\$0.70	245,000	245,000	43,993
07-Aug-12	\$0.70	300,000	300,000	158,832
01-Mar-15	\$0.10	250,000	145,000	34,831
01-Feb-16	\$0.15	1,050,000	1,050,000	157,062
01-Mar-13	\$0.23	150,000	150,000	32,470
06-June-16	\$0.20	150,000	12,500	2,474
		<u>3,744,000</u>	<u>3,606,500</u>	<u>\$1,286,105</u>

Stock options have been allocated as follows:

	June 30, 2011	March 31, 2011
Balance, beginning of period	\$1,283,631	\$1,115,754
Stock options granted		
Directors & officers	-	-
Consultants & employees	2,474	167,877
Balance, end of period	<u>\$1,286,105</u>	<u>\$1,283,631</u>

# Red Rock Energy Inc.

## Notes to the financial statements

As at June 30, 2011 and June 30, 2010 and for the three months ended June 30, 2011 and June 30, 2010

### 12. Income Taxes

The estimated taxable loss for three months ended June 30, 2011 is \$ (234,853). 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 June 30, 2011, the Company had non-capital losses in Canada of approximately \$2,271,536 (\$2,036,683 – March 31, 2011) 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), 2031 (\$453,880) and 2032 (\$ 234,853).

### 13. Commitments and contingencies

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 year is as follows:

2012	26,994
Total	<u>\$ 26,994</u>

The lease has been classified as an operating lease.

### 14. Related Party Transactions

A shareholder and director of the Company provided legal services to the Company. During the three months ended June 30, 2011, fees and disbursements paid to this shareholder and director's law firm totaled \$11,558 (2010 - \$878). Estimated unbilled fees and disbursements at June 30, 2011 are nil.

An officer of the Company provided financial management services to the Company. During the three months ended June 30, 2011, fees paid to this officer's company totaled \$6,000 (2011 - \$6,000). Estimated unbilled fees and disbursements at June 30, 2011 are nil.

A company controlled by a shareholder and director provided CEO services to the Company. During the three months ended June 30, 2011, fees and disbursements paid to this shareholder and director's management company totaled \$30,000 (2011 - \$30,000). Estimated unbilled fees and disbursements at June 30, 2011 are nil.

## Red Rock Energy Inc.

### Notes to the financial statements

*As at June 30, 2011 and June 30, 2010 and for the three months ended June 30, 2011 and June 30, 2010*

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.

#### **15. 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 three months ended June 30, 2011.

#### **16. 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 June 30, 2011, the Company has accounts payable and accrued liabilities of \$23,563 and a term loan of \$750,000 due within 12 months and cash and cash equivalents of \$571,384. As a result, the Company currently has liquidity risk and is dependent on raising additional capital.

## Red Rock Energy Inc.

### Notes to the financial statements

*As at June 30, 2011 and June 30, 2010 and for the three months ended June 30, 2011 and June 30, 2010*

#### **17. Subsequent events**

On September 8, 2011, the Company executed a Letter of Engagement with Wolverton Securities Ltd. ("the Agent") pursuant to which the Agent agreed to act as agent in connection with a brokered private placement financing of units and flow through common shares to raise a minimum of \$2.5 million and a maximum of \$5.6 million. This financing, which remains subject to the completion of due diligence procedures by Wolverton and will be completed on a commercially reasonable efforts basis, contemplates the issuance of up to a maximum of 30,666,667 units at a price of \$0.15 and up to 5,555,556 flow through common shares at a price of \$0.18 per flow through share. The financing is subject to raising minimum aggregate gross proceeds of \$2.5 million, of which at least \$2.0 million is to be raised through the issuance of units. Each unit will be comprised of one common share and one non-transferable common share purchase warrant, with each full warrant being exercisable for one common share of the Corporation within 18 months of the closing date, subject to acceleration in certain circumstances, and at a price of \$0.25 per share. The parties intend to close this offering as quickly as practicable, and expect such to occur within 60 days.

Proceeds of the offering will be used to continue development of the Company's petroleum exploration project in north-eastern British Columbia, such activity to include commencement of recompletion and exploratory drilling activities and acquisition of additional lands in the general region. A portion of the funds raised will also be applied to general corporate purposes.

#### **18. Reconciliation from GAAP to IFRS:**

The Company's accounting policies under IFRS differ from those followed under previous Canadian GAAP as described in Note 3. These accounting policies have been applied for the three months ended June 30, 2011, as well as to the opening statement of financial position on the transition date, April 1, 2010, the comparative information for the three months ended June 30, 2010 and the comparative information for the year ended March 31, 2011.

On transition to IFRS on April 1, 2011 the Company used the IFRS mandatory exception for the retrospective application of certain IFRS whereby hindsight was not used to create or revise estimates and accordingly, the estimates previously made by the Company under GAAP are consistent with their application under IFRS.

In preparing these interim condensed consolidated financial statements in accordance with IFRS 1, the Company also applied the optional exemption from full retrospective application of IFRS whereby the Company was not required to apply IFRS 2 – Share-based Payments to stock options that vested prior to the transition date.

Red Rock Energy Inc.

Notes to the financial statements

As at June 30, 2011 and June 30, 2010 and for the three months ended June 30, 2011 and June 30, 2010

(a) Reconciliation of the consolidated statement of financial position:

	<i>At the transition date - April 1, 2010</i>		
	<i>Effect of transition to IFRS</i>		<i>IFRS</i>
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	\$977,802		\$977,802
Goods and services taxes receivable	8,212		8,212
Deposits and prepaids	26,714		26,714
Note receivable	20,000		20,000
	<b>1,032,728</b>		<b>1,032,728</b>
Exploration and evaluation assets	7,686,979		7,686,979
Machinery and equipment	37,850		37,850
Building	49,185		49,185
<b>Total Assets</b>	<b>\$8,806,742</b>		<b>\$8,806,742</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	\$80,764		\$80,764
	80,764		80,764
<b>Deferred income tax (Note 9)</b>	<b>1,300,374</b>		<b>1,300,374</b>
	<b>1,381,138</b>		<b>1,381,138</b>
<b>Shareholders' equity</b>			
Common shares (d) (i)	8,541,596	1,261,154	9,802,750
Contributed surplus	1,115,754		1,115,754
Warrants	299,550		299,550
Deficit (d) (i)	(2,531,296)	(1,261,154)	(3,792,450)
	<b>7,425,604</b>		<b>7,425,604</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$8,806,742</b>		<b>\$8,806,742</b>

# Red Rock Energy Inc.

## Notes to the financial statements

As at June 30, 2011 and June 30, 2010 and for the three months ended June 30, 2011 and June 30, 2010

	<i>At the comparative reporting date - June 30, 2010</i>		
<b>Assets</b>	<i>GAAP</i>	<i>Effect of transition to IFRS</i>	<i>IFRS</i>
<b>Current assets</b>			
Cash and cash equivalents	\$740,771		\$740,771
Goods and services taxes receivable	15,751		15,751
Deposits and prepaids	23,614		23,614
Note receivable	20,000		20,000
	<b>800,136</b>		<b>800,136</b>
Exploration and evaluation assets	7,808,140		7,808,140
Machinery and equipment	29,135		29,135
Building	47,705		47,705
<b>Total Assets</b>	<b>\$8,685,116</b>		<b>\$8,685,116</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	\$74,893		\$74,893
	74,893		74,893
<b>Deferred income tax (Note 9)</b>	<b>1,300,374</b>		<b>1,300,374</b>
	<b>1,375,267</b>		<b>1,375,267</b>
<b>Shareholders' equity</b>			
Common shares (d) (i)	8,507,596	1,261,154	9,768,750
Contributed surplus	1,115,754		1,115,754
Warrants	299,550		299,550
Deficit (d) (i)	(2,613,051)	(1,261,154)	(3,874,205)
	<b>7,309,849</b>		<b>7,309,849</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$8,685,116</b>		<b>\$8,685,116</b>

Red Rock Energy Inc.

Notes to the financial statements

As at June 30, 2011 and June 30, 2010 and for the three months ended June 30, 2011 and June 30, 2010

	<i>At the end of the last reporting year - March 31, 2011</i>		
		<i>Effect of transition to</i>	
<b>Assets</b>	<i>GAAP</i>	<i>IFRS</i>	<i>IFRS</i>
<b>Current assets</b>			
Cash and cash equivalents	\$262,409		\$262,409
Goods and services taxes receivable	-		-
Deposits and prepaids	36,011		36,011
Note receivable	22,000		22,000
	320,420		320,420
Exploration and evaluation assets	8,009,221		8,009,221
Machinery and equipment	23,350		23,350
Building	43,265		43,265
<b>Total Assets</b>	<b>\$8,396,256</b>		<b>\$8,396,256</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	\$29,158		\$29,158
	29,158		29,158
<b>Deferred income tax (Note 9)</b>	<b>1,255,533</b>		<b>1,255,533</b>
	1,284,691		1,284,691
<b>Shareholders' equity</b>			
Common shares (d) (i)	8,668,074	1,261,154	9,929,228
Contributed surplus	1,283,631		1,283,631
Warrants	268,072		268,072
Deficit (d) (i)	(3,108,212)	(1,261,154)	(4,369,366)
	7,111,565		7,111,565
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$8,396,256</b>		<b>\$8,396,256</b>

## Red Rock Energy Inc.

### Notes to the financial statements

*As at June 30, 2011 and June 30, 2010 and for the three months ended June 30, 2011 and June 30, 2010*

#### (b) Reconciliation of consolidated statement of loss and comprehensive loss:

The conversion to IFRS had no impact on the statement of loss and comprehensive loss for the comparative three months ended June 30, 2010 and the year ended March 31, 2011.

#### (c) Reconciliation of consolidated statement of cash flows:

The conversion to IFRS had no impact on the Company's consolidated statement of cash flows.

#### (d) Notes to reconciliations:

##### (i) 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 renounced, 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 market value of the common shares on that date and the difference between the actual proceeds and the amount recorded in share capital is set up as a flow-through share premium liability. As flow-through expenditures are incurred, the related flow-through share premium liability is reversed and the related tax effect is recorded as a deferred tax liability.

In 2009 and earlier years, the Company raised flow-through share proceeds for which the total tax effect recognized in share capital under Canadian GAAP was \$1,467,635. On the date of transition to IFRS, share capital was increased by the reversal of the Canadian GAAP tax effect and reduced by the flow-through share premium of \$206,481 for a net increase of \$1,261,154. As the Company has sufficient deferred tax assets to offset deferred tax liabilities, the corresponding adjustment was to the Company's deficit.

##### (ii) Share-based payments

Under Canadian GAAP, the Company recognized stock-based compensation related to share based payments 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. In addition, certain option holders who were considered non-employees under Canadian GAAP meet the definition of employee under IFRS, thereby eliminating the requirement to re-value certain unvested options on each reporting date. The effect of the conversion to IFRS on share-based payments was not significant and did not require adjustment.

##### iii) Exploration and Evaluation Expenditures

IFRS allows an entity to select an appropriate accounting policy for the treatment of resource properties (known as exploration and evaluation assets under IFRS). As a result, on transition to IFRS, it is possible to continue to follow the policies previously established by the company or to change to a new policy. Under existing Canadian GAAP, the Company followed the policy of capitalizing all mineral and oil and gas property expenditures directly attributable to the exploration or evaluation of each property. On transition, the Company has retained the policy to capitalize all mineral and oil and gas property expenditures directly attributable to the exploration or evaluation of each property under IFRS.