



## HIGHLIGHTS

- Increased proved plus probable reserves by 31% to 7.1 million boe.<sup>(1) (2)</sup>
- Drilled a 100% working interest Montney horizontal well in the Dawson area of Northeast British Columbia which was completed in the first quarter of 2009. The well initially flowed at over 5.0 mmcf/d with a final test rate on an extended flow at approximately 2.5 mmcf/d.
- Increased total bank credit facilities to \$46.0 million, including an increase in the revolving demand portion to \$40.0 million from \$35.0 million.
- Completed acquisition of Black Bore Resources Ltd., by way of plan of arrangement, on October 31, 2008. The primary assets of Black Bore were Dawson Montney lands consisting of a 5 section contiguous 100% working interest block of land, 2 wellbores that penetrate the Montney formation on the lands, access to the Doe Creek gas plant, and approximately 50 boepd of producing assets.
- Completed acquisition of a private company on November 5, 2008. The primary assets of the private company were a \$9.7 million cash position, approximately 100 boepd of producing assets, and approximately \$23.0 million in tax pools.
- Raised gross proceeds of \$9.0 million through private placement issuances of 4.0 million common shares on a flow-through basis, priced at \$2.25 per share.

FINANCIAL	Three Months Ended December 31			Year Ended December 31		
	2008	2007	% Change	2008	2007	% Change
(\$000s, except per share amounts)						
<b>Oil and natural gas sales</b>	<b>8,729</b>	9,994	(13)	<b>54,468</b>	14,378	279
<b>Funds from operations <sup>(3)</sup></b>	<b>3,463</b>	4,997	(31)	<b>30,607</b>	6,405	378
per share - basic and diluted	<b>0.09</b>	0.16	(44)	<b>0.89</b>	0.39	128
<b>Net earnings (loss)</b>	<b>(2,511)</b>	(523)	380	<b>2,974</b>	(739)	502
per share - basic and diluted	<b>(0.07)</b>	(0.02)	250	<b>0.09</b>	(0.04)	325
<b>Capital expenditures</b>	<b>19,049</b>	13,000	47	<b>58,964</b>	22,387	163
<b>Corporate acquisitions</b>	<b>16,575</b>	75,866	(78)	<b>16,575</b>	110,632	(85)
<b>Property dispositions</b>	<b>(827)</b>	-	100	<b>(5,579)</b>	-	100
<b>Net debt <sup>(4)</sup></b>				<b>20,944</b>	11,455	83
<b>Common shares outstanding (000s)</b>						
weighted average - basic and diluted				<b>34,338</b>	16,605	107
end of period - basic				<b>43,985</b>	33,045	33
end of period - diluted				<b>49,434</b>	38,176	29

(1) Based on total company interest reserves before deduction of royalties to others and including any royalty interest of Crocotta. Based on the evaluation by GLJ Petroleum Consultants Ltd.

(2) See BOE Conversions section in the MD&A

(3) Funds from operations and funds from operations per share do not have any standardized meaning prescribed by Canadian GAAP and therefore may not be comparable to similar measures used by other companies. Please refer to the Non-GAAP Measures section in the MD&A for more details and the Funds from Operations section in the MD&A for a reconciliation to cash flow from operating activities.

(4) Net debt includes current liabilities (including the revolving credit facility) less current assets.

OPERATING	Three Months Ended December 31			Year Ended December 31		
	2008	2007	% Change	2008	2007	% Change
<b>Number of producing days</b>	<b>92</b>	92		<b>366</b>	365	
<b>Daily production</b>						
Oil and NGLs - (bbls/d)	<b>746</b>	724	3	<b>807</b>	278	190
Natural gas - (mcf/d)	<b>7,628</b>	7,653	-	<b>8,170</b>	2,780	194
Oil equivalent - (boe/d @ 6:1)	<b>2,017</b>	2,000	1	<b>2,169</b>	741	193
<b>Revenue</b>						
Oil and NGLs - (\$/bbl)	<b>54.00</b>	80.32	(33)	<b>94.11</b>	76.21	23
Natural gas - (\$/mcf)	<b>7.16</b>	6.60	8	<b>8.92</b>	6.54	36
Oil equivalent - (\$/boe @ 6:1)	<b>47.04</b>	54.33	(13)	<b>68.63</b>	53.10	29
<b>Royalties</b>						
Oil and NGLs - (\$/bbl)	<b>12.22</b>	18.29	(33)	<b>21.61</b>	15.24	42
Natural gas - (\$/mcf)	<b>1.17</b>	1.26	(7)	<b>1.53</b>	1.17	31
Oil equivalent - (\$/boe @ 6:1)	<b>8.93</b>	11.45	(22)	<b>13.80</b>	10.12	36
<b>Production expenses</b>						
Oil and NGLs - (\$/bbl)	<b>8.06</b>	10.78	(25)	<b>8.21</b>	10.25	(20)
Natural gas - (\$/mcf)	<b>2.06</b>	1.69	22	<b>1.79</b>	1.56	15
Oil equivalent - (\$/boe @ 6:1)	<b>10.77</b>	10.38	4	<b>9.80</b>	9.70	1
<b>Transportation expenses</b>						
Oil and NGLs - (\$/bbl)	<b>1.33</b>	0.62	115	<b>1.33</b>	0.71	87
Natural gas - (\$/mcf)	<b>0.17</b>	0.15	13	<b>0.16</b>	0.15	7
Oil equivalent - (\$/boe @ 6:1)	<b>1.12</b>	0.80	40	<b>1.09</b>	0.82	33
<b>Operating netback <sup>(1)</sup></b>						
Oil and NGLs - (\$/bbl)	<b>32.39</b>	50.63	(36)	<b>62.96</b>	50.01	26
Natural gas - (\$/mcf)	<b>3.76</b>	3.50	7	<b>5.44</b>	3.66	49
Oil equivalent - (\$/boe @ 6:1)	<b>26.22</b>	31.70	(17)	<b>43.94</b>	32.46	35
General and administrative expenses - (\$/boe)	<b>6.47</b>	4.18	55	<b>4.62</b>	9.67	(52)
Interest expense (income) - (\$/boe)	<b>1.08</b>	0.35	209	<b>0.76</b>	(0.87)	187
Depletion, depreciation, and accretion - (\$/boe)	<b>31.50</b>	31.72	(1)	<b>31.22</b>	29.96	4
Stock-based compensation - (\$/boe)	<b>0.83</b>	0.52	60	<b>0.84</b>	0.62	35
Goodwill impairment - (\$/boe)	<b>3.27</b>	-	100	<b>0.76</b>	-	100
Future income tax expense (recovery) - (\$/boe)	<b>(3.40)</b>	(2.23)	52	<b>1.99</b>	(4.20)	(147)
<b>Net earnings (loss) - (\$/boe)</b>	<b>(13.53)</b>	(2.84)	(376)	<b>3.75</b>	(2.72)	238

(1) Operating netback does not have any standardized meaning prescribed by Canadian GAAP and therefore may not be comparable to similar measures used by other companies. Please refer to the Non-GAAP Measures section in the MD&A for more details.

## Management's Discussion and Analysis

March 23, 2009

Crocotta Energy Inc. ("Crocotta" or the "Company") is an oil and natural gas company, actively engaged in the acquisition, development, exploration, and production of oil and natural gas reserves in Western Canada. On November 15, 2006, Crocotta commenced active oil and natural gas operations with the acquisition of certain oil and natural gas properties from Chamaelo Exploration Ltd. Crocotta commenced trading on the Toronto Stock Exchange ("TSX") on October 17, 2007 under the symbol "CTA".

The MD&A should be read in conjunction with the audited financial statements and notes thereto for the years ended December 31, 2008 and 2007. The audited financial statements and financial data contained in the MD&A have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") in Canadian currency (except where noted as being in another currency).

Additional information related to the Company may be found on the SEDAR website at [www.sedar.com](http://www.sedar.com).

### BOE Conversions

Barrel of oil equivalent ("boe") amounts have been calculated using a conversion rate of six thousand cubic feet of natural gas to one barrel of oil (6:1) unless otherwise stated. The term "boe" may be misleading, particularly if used in isolation. A boe conversion rate of six thousand cubic feet of natural gas to one barrel of oil equivalence is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

### Non-GAAP Measures

This document contains the terms "funds from operations", "funds from operations per share" and "operating netback" which do not have any standardized meaning prescribed by Canadian GAAP and therefore may not be comparable to similar measures used by other companies. The Company uses these measures to help evaluate its performance. Management uses funds from operations to analyze performance and considers it a key measure as it demonstrates the Company's ability to generate the cash necessary to fund future capital investments and to repay debt. Funds from operations is a non-GAAP measure and has been defined by the Company as net earnings plus non-cash items (depletion, depreciation and accretion, stock-based compensation, goodwill impairment, and future income taxes) and excludes the change in non-cash working capital related to operating activities and expenditures on asset retirement obligations and reclamation. The Company also presents funds from operations per share whereby amounts per share are calculated using weighted average shares outstanding, consistent with the calculation of earnings per share. Funds from operations is reconciled to cash flow from operating activities under the heading "Funds from Operations". Management considers operating netback an important measure as it demonstrates its profitability relative to current commodity prices. Operating netback, which is calculated as average unit sales price less royalties, production expenses, and transportation expenses, represents the cash margin for every barrel of oil equivalent sold. Operating netback per boe is reconciled to net earnings per boe under the heading "Operating Netback".

### Forward-Looking Information

This document contains forward-looking statements and forward-looking information within the meaning of applicable securities laws. The use of any of the words "expect", "anticipate", "continue", "estimate", "may", "will", "should", "believe", "intends", "forecast", "plans", "guidance" and similar expressions are intended to identify forward-looking statements or information.

More particularly and without limitation, this document contains forward looking statements and information relating to the Company's risk management program, oil, NGLs and natural gas production and reserves, future funds from operations, capital programs, oil, NGLs, and natural gas commodity prices, debt levels, future royalty rates and future depletion, depreciation and accretion rates. The forward-looking statements and information are based on certain key expectations and assumptions made by the Company, including expectations and assumptions relating to prevailing commodity prices and exchange rates, applicable royalty rates and tax laws, future well production rates, the performance of existing wells, the success of drilling new wells, the availability of capital to undertake planned activities and the availability and cost of labour and services.

Although the Company believes that the expectations reflected in such forward-looking statements and information are reasonable, it can give no assurance that such expectations will prove to be correct. Since forward-looking statements and information address future events and conditions, by their very nature they involve inherent risks and uncertainties. Actual results may differ materially from those currently anticipated due to a number of factors and risks. These include, but are not limited to, the risks associated with the oil and gas industry in general such as operational risks in development, exploration and production, delays or changes in plans with respect to exploration or development projects or capital expenditures, the uncertainty of estimates and projections relating to production rates, costs and expenses, commodity price and exchange rate fluctuations, marketing and transportation, environmental risks, competition, the ability to access sufficient capital from internal and external sources and changes in tax, royalty and environmental legislation. The forward-looking statements and information contained in this document are made as of the date hereof for the purpose of providing the readers with the Company's expectations for the coming year. The forward-looking statements and information may not be appropriate for other purposes. The Company undertakes no obligation to update publicly or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise, unless so required by applicable securities laws.

**Crocotta Energy Inc.**  
**Management's Discussion & Analysis**  
**Year ended December 31, 2008**

Summary of Financial Results	Three Months Ended December 31			Year Ended December 31		
	2008	2007	% Change	2008	2007	% Change
(\$000s, except per share amounts)						
<b>Oil and natural gas sales</b>	<b>8,729</b>	9,994	(13)	<b>54,468</b>	14,378	279
<b>Funds from operations</b>	<b>3,463</b>	4,997	(31)	<b>30,607</b>	6,405	378
per share - basic and diluted	<b>0.09</b>	0.16	(44)	<b>0.89</b>	0.39	128
<b>Net earnings (loss)</b>	<b>(2,511)</b>	(523)	380	<b>2,974</b>	(739)	502
per share - basic and diluted	<b>(0.07)</b>	(0.02)	250	<b>0.09</b>	(0.04)	325
<b>Total assets</b>				<b>187,987</b>	147,631	27
<b>Net debt <sup>(1)</sup></b>				<b>20,944</b>	11,455	83

(1) Net debt includes current liabilities (including the revolving credit facility) less current assets.

**Summary of Quarterly Results**

	Q4 2008	Q3 2008	Q2 2008	Q1 2008	Q4 2007	Q3 2007	Q2 2007	Q1 2007
Number of producing days	92	92	91	91	92	92	91	90
(\$000s, except per share amounts)								
Oil and natural gas sales	8,729	13,547	19,255	12,937	9,994	2,587	1,266	532
Funds from operations	3,463	7,724	11,953	7,467	4,997	1,156	323	(70)
per share - basic and diluted <sup>(1)</sup>	0.09	0.23	0.36	0.23	0.16	0.07	0.03	(0.01)
Net earnings (loss)	(2,511)	1,232	3,446	808	(523)	(259)	(339)	382
per share - basic and diluted <sup>(1)</sup>	(0.07)	0.04	0.10	0.02	(0.02)	(0.02)	(0.03)	0.05

(1) On October 12, 2007, Crocotta's outstanding common shares were consolidated on a three-to-one basis. As such, per share amounts for the comparative periods have been adjusted to reflect the three-to-one consolidation.

**General**

During the year ended December 31, 2008, Crocotta completed two corporate acquisitions. On October 31, 2008, Crocotta closed the acquisition of Black Bore Resources Ltd. ("Black Bore"). The primary assets of Black Bore were Dawson Montney lands consisting of a 5 section contiguous 100% working interest block of land, two wellbores that penetrate the Montney formation on the lands, access to the Doe Creek gas plant, and approximately 50 boe/d of producing assets. On November 5, 2008, Crocotta closed the acquisition of a private company ("PrivateCo"). The primary assets of PrivateCo were a \$9.7 million cash position, approximately 100 boe/d of producing assets, and approximately \$23.0 million in tax pools.

During the year ended December 31, 2007, Crocotta closed two significant corporate acquisitions that have had a material impact on the Company's operations and financial results in 2008 compared to 2007. On June 8, 2007, Crocotta closed the acquisition of Eastshore Energy Ltd. ("Eastshore") which was producing approximately 500 boe/d at the date of acquisition. On October 12, 2007, Crocotta closed the acquisition of Diamond Tree Energy Ltd. ("Diamond Tree") which added approximately 1,450 boe/d to Crocotta's production base at the date of acquisition.

Production	Three Months Ended December 31			Year Ended December 31		
	2008	2007	% Change	2008	2007	% Change
Average Daily Production						
Oil and NGLs (bbls/d)	<b>746</b>	724	3	<b>807</b>	278	190
Natural gas (mcf/d)	<b>7,628</b>	7,653	-	<b>8,170</b>	2,780	194
Total (boe/d)	<b>2,017</b>	2,000	1	<b>2,169</b>	741	193

Daily production for the fourth quarter of 2008 was consistent with the fourth quarter of 2007, averaging 2,017 boe/d versus 2,000 boe/d in the prior period. Production for the year ended December 31, 2008 averaged 2,169 boe/d, up significantly from 741 boe/d for the year ended December 31, 2007.

**Crocotta Energy Inc.**  
**Management's Discussion & Analysis**  
**Year ended December 31, 2008**

Production for the year ended December 31, 2008 increased mainly as a result of the Eastshore and Diamond Tree acquisitions in Q2 and Q4 2007, which added approximately 500 boe/d and 1,450 boe/d, respectively, at the time of closing of each acquisition and successful drilling efforts during the latter half of 2007 and during 2008.

Crocotta's production profile remained constant in 2008, comprised of 63% natural gas and 37% oil and NGLs compared to 62% natural gas and 38% oil and NGLs in 2007.

Revenue (\$000s)	Three Months Ended December 31			Year Ended December 31		
	2008	2007	% Change	2008	2007	% Change
Oil and NGLs	3,705	5,351	(31)	27,784	7,746	259
Natural gas	5,024	4,643	8	26,684	6,632	302
Total revenue	8,729	9,994	(13)	54,468	14,378	279
Average Sales Price						
Oil and NGLs (\$/bbl)	54.00	80.32	(222)	94.11	76.21	23
Natural gas (\$/mcf)	7.16	6.60	8	8.92	6.54	36
Average sales price (\$/boe)	47.04	54.33	(13)	68.63	53.10	29

Revenue totaled \$8.7 million for the fourth quarter of 2008, down 13% from \$10.0 million for the fourth quarter of 2007, mainly due to lower oil and NGLs commodity prices. Revenue totaled \$54.5 million for the year ended December 31, 2008, up dramatically from \$14.4 million for the year ended December 31, 2007. Revenue increased as a result of the Eastshore and Diamond Tree acquisitions in Q2 and Q4 2007, successful drilling efforts during the latter half of 2007 and during 2008, and significantly higher commodity prices in 2008 compared to 2007.

During the year, the Company sold all its oil, NGLs and natural gas on the spot market. Future prices received from the sale of the products may fluctuate as the result of market factors. The Company did not hedge any of its oil, NGLs or natural gas production in 2008 or 2007.

The following table outlines the Company's realized wellhead prices and industry benchmarks:

Commodity Pricing	Three Months Ended December 31			Year Ended December 31		
	2008	2007	% Change	2008	2007	% Change
<b>Oil and NGLs</b>						
Corporate Price (\$Cdn/bbl)	54.00	80.32	(33)	94.11	76.21	23
West Texas Intermediate (\$US/bbl)	58.33	90.77	(16)	99.59	72.27	38
Edmonton Par (\$Cdn/bbl)	63.94	87.18	(27)	102.85	77.06	33
<b>Natural gas</b>						
Corporate Price (\$Cdn/mcf)	7.16	6.60	8	8.92	6.54	36
AECO Daily Spot Price (\$Cdn/mcf)	6.71	6.16	9	8.15	6.45	26
<b>Exchange Rates</b>						
U.S./Cdn. Dollar Average Exchange Rate	0.8265	1.0197	(19)	0.9433	0.9351	1

Corporate average oil and NGLs prices were 84.5% and 91.5% of Edmonton Par price for the three months and year ended December 31, 2008, respectively. Corporate average natural gas prices were 106.7% and 109.4% of AECO Daily Spot price for the three months and year ended December 31, 2008, respectively. Differences between corporate and benchmark prices can be a result of quality (higher or lower API, higher or lower heat content), sour content, NGLs included in reporting, and various other factors. Crocotta's differences are mainly the result of lower priced NGLs included in oil price reporting and higher heat content natural gas production that is priced higher than AECO Daily Spot. Note that these differences change on a monthly basis depending on demand for each particular product.

Royalties (\$000s)	Three Months Ended December 31			Year Ended December 31		
	2008	2007	% Change	2008	2007	% Change
Oil and NGLs	838	1,219	(31)	6,381	1,549	312
Natural gas	819	888	(8)	4,571	1,192	283
Total royalties	1,657	2,107	(21)	10,952	2,741	300
Average Royalty Rate (% of sales)						
Oil and NGLs	22.6	22.8	(1)	23.0	20.0	15
Natural gas	16.3	19.1	(15)	17.1	18.0	(5)
Average royalty rate	19.0	21.1	(10)	20.1	19.1	5

Oil, NGLs, and natural gas royalties decreased in the three months ended December 31, 2008 to \$1.7 million from \$2.1 million for the three months ended December 31, 2007. For the year, royalties increased significantly to \$11.0 million in 2008 from \$2.7 million in 2007. The year-over-year increase was mainly as a result of increased revenue from the Eastshore and Diamond Tree acquisitions in Q2 and Q4 2007 combined with successful drilling efforts in the latter half of 2007 and during 2008.

**Crocotta Energy Inc.**  
**Management's Discussion & Analysis**  
**Year ended December 31, 2008**

The overall effective royalty rates remained fairly constant at 20.1% for the year ended December 31, 2008 compared to 19.1% for the year ended December 31, 2007. For the three months ended December 31, 2008, the overall royalty rate decreased to 19.0% from 21.1% for the three months ended December 31, 2007. The decrease was due to lower natural gas royalties (Q4 2008 – 16.3% versus Q4 2007 – 19.1%) as a result of crown royalty adjustments for processing and capital cost allowances.

Production Expenses	Three Months Ended December 31			Year Ended December 31		
	2008	2007	% Change	2008	2007	% Change
Oil and NGLs (\$/bbl)	8.06	10.78	(25)	8.21	10.25	(20)
Natural gas (\$/mcf)	2.06	1.69	22	1.79	1.56	15
Total (\$/boe)	10.77	10.38	4	9.80	9.70	1

Per unit production expenses in 2008 remained consistent with 2007. For the fourth quarter of 2008, per unit production expenses were \$10.77/boe compared to \$10.38/boe for the fourth quarter of 2007. For the year ended December 31, 2008, per unit production expenses were \$9.80/boe, a marginal increase of 1% from \$9.70/boe for the year ended December 31, 2007. The company anticipates production expenses in 2009 to remain consistent with 2008.

Transportation Expenses	Three Months Ended December 31			Year Ended December 31		
	2008	2007	% Change	2008	2007	% Change
Oil and NGLs (\$/bbl)	1.33	0.62	115	1.33	0.71	87
Natural gas (\$/mcf)	0.17	0.15	13	0.16	0.15	7
Total (\$/boe)	1.12	0.80	40	1.09	0.82	33

Transportation expenses are mainly third-party pipeline tariffs incurred to deliver the products to the purchasers at main hubs. Transportation expenses increased as a result of a significant increase in NGLs transportation costs as a result of the Company switching to a higher netback purchaser in the second quarter of 2008.

Operating Netback	Three Months Ended December 31			Year Ended December 31		
	2008	2007	% Change	2008	2007	% Change
<b>Oil and NGLs (\$/bbl)</b>						
Revenue	54.00	80.32	(33)	94.11	76.21	23
Royalties	12.22	18.29	(33)	21.61	15.24	42
Production expenses	8.06	10.78	(25)	8.21	10.25	(20)
Transportation expenses	1.33	0.62	115	1.33	0.71	87
Operating netback	32.39	50.63	(36)	62.96	50.01	26
<b>Natural gas (\$/mcf)</b>						
Revenue	7.16	6.60	8	8.92	6.54	36
Royalties	1.17	1.26	(7)	1.53	1.17	31
Production expenses	2.06	1.69	22	1.79	1.56	15
Transportation expenses	0.17	0.15	13	0.16	0.15	7
Operating netback	3.76	3.50	7	5.44	3.66	49
<b>Combined (\$/boe) (6:1)</b>						
Revenue	47.04	54.33	(13)	68.63	53.10	29
Royalties	8.93	11.45	(22)	13.80	10.12	36
Production expenses	10.77	10.38	4	9.80	9.70	1
Transportation expenses	1.12	0.80	40	1.09	0.82	33
Operating netback	26.22	31.70	(17)	43.94	32.46	35

During the fourth quarter of 2008, Crocotta generated an operating netback of \$26.22/boe, down 17% from \$31.70/boe for the fourth quarter of 2007. The decrease was due to a sharp decline in oil and NGLs commodity prices in the fourth quarter of 2008. For the year ended December 31, 2008, Crocotta generated an operating netback of \$43.94, an increase of 35% from \$32.46/boe for the year ended December 31, 2007. The increase in the year-over-year operating netback was a result of a significant increase in oil, NGLs, and natural gas prices during the first nine months of 2008.

The following is a reconciliation of operating netback per boe to net earnings (loss) per boe for the periods noted:

(\$/boe)	Three Months Ended December 31			Year Ended December 31		
	2008	2007	% Change	2008	2007	% Change
<b>Operating netback</b>	26.22	31.70	(17)	43.94	32.46	35
General and administrative expenses	6.47	4.18	55	4.62	9.67	(52)
Interest expense (income)	1.08	0.35	209	0.76	(0.87)	187
Depletion, depreciation, and accretion	31.50	31.72	(1)	31.22	29.96	4
Stock-based compensation	0.83	0.52	60	0.84	0.62	35
Goodwill impairment	3.27	-	100	0.76	-	100
Future income tax expense (recovery)	(3.40)	(2.23)	52	1.99	(4.20)	(147)
<b>Net earnings (loss)</b>	<b>(13.53)</b>	<b>(2.84)</b>	<b>(376)</b>	<b>3.75</b>	<b>(2.72)</b>	<b>238</b>

**Crocotta Energy Inc.**  
**Management's Discussion & Analysis**  
**Year ended December 31, 2008**

General and Administrative Expenses (\$000s)	Three Months Ended December 31			Year Ended December 31		
	2008	2007	% Change	2008	2007	% Change
G&A expenses (gross)	1,613	992	63	4,768	3,238	47
G&A capitalized	(214)	(96)	123	(580)	(392)	48
G&A recoveries	(198)	(127)	56	(520)	(228)	128
G&A expenses (net)	1,201	769	56	3,668	2,618	40
G&A expenses (\$/boe)	6.47	4.18	55	4.62	9.67	(52)

General and administrative expenses ("G&A") increased 55% to \$6.47/boe for the fourth quarter of 2008 compared to \$4.18/boe for the fourth quarter of 2007 due to higher G&A costs, mainly related to higher employment costs, spread over relatively the same amount of production. For the year, G&A expenses decreased 52% to \$4.62/boe in 2008 compared to \$9.67/boe in 2007. The decrease in year-over-year G&A on a per unit basis is the result of a significant increase in production.

Interest (\$000s)	Three Months Ended December 31			Year Ended December 31		
	2008	2007	% Change	2008	2007	% Change
Interest expense	210	100	110	622	102	510
Interest income	(9)	(34)	(74)	(20)	(336)	(94)
Net interest expense / (income)	201	66	205	602	(234)	357
Interest expense / (income) (\$/boe)	1.08	0.35	209	0.76	(0.87)	187

Interest expense amounts relate mainly to interest incurred on amounts drawn from the Company's credit facility. Interest income amounts in 2007 relate to interest earned during the first 10 months of 2007 on funds raised through the November 2006 and May 2007 private placement issuances.

Depletion, Depreciation and Accretion	Three Months Ended December 31			Year Ended December 31		
	2008	2007	% Change	2008	2007	% Change
DD&A (\$000s)	5,845	5,835	-	24,776	8,113	205
DD&A (\$/boe)	31.50	31.72	(1)	31.22	29.96	4

Depletion, depreciation and accretion ("DD&A") decreased slightly to \$31.50/boe for the three months ended December 31, 2008 compared to \$31.72/boe for the three months ended December 31, 2007. For the year, DD&A increased marginally to \$31.22/boe in 2008 compared to \$29.96 in 2007. The provision for DD&A for the three months ended December 31, 2008 includes \$0.1 million (2007 - \$0.1 million) for accretion of asset retirement obligations and \$0.1 million (2007 - \$0.1 million) for the amortization of equipment under capital lease. For the year ended December 31, 2008, the provision for DD&A includes \$0.2 million (2007 - \$0.1 million) for accretion of asset retirement obligations and \$0.1 million (2007 - \$0.1 million) for the amortization of equipment under capital lease.

Stock-based Compensation	Three Months Ended December 31			Year Ended December 31		
	2008	2007	% Change	2008	2007	% Change
Stock-based compensation (\$000s)	154	96	60	670	169	296
Stock-based compensation (\$/boe)	0.83	0.52	60	0.84	0.62	35

The Company grants stock options to officers, directors, employees and consultants and calculates the related stock-based compensation using the Black-Scholes option-pricing model. The Company recognizes the expense over the vesting period of the stock options. The increase in stock-based compensation in 2008 compared to 2007 is a result of the issuance of 0.5 million stock options during 2008 combined with the issuance of 1.8 million options in November 2007.

Goodwill Impairment	Three Months Ended December 31			Year Ended December 31		
	2008	2007	% Change	2008	2007	% Change
Goodwill impairment (\$000s)	607	-	100	607	-	100
Goodwill impairment (\$/boe)	3.27	-	100	0.76	-	100

Goodwill was recognized on October 31, 2008 as a result of the acquisition of Black Bore. The Company reviewed the goodwill balance at December 31, 2008 and determined that the full carrying amount was impaired. At December 31, 2008, the full carrying amount of goodwill of \$0.6 million was removed from the balance sheet and charged to earnings.

**Taxes**

Future taxes for the three months ended December 31, 2008 was a recovery of \$0.6 million compared to a recovery of \$0.4 million during the same period in 2007. For the year ended December 31, 2008, the Company recorded a future tax expense of \$1.6 million compared to a recovery of \$1.1 million for the year ended December 31, 2007. The future tax expense for the year ended December 31, 2008 was higher than the expected expense when multiplying net earnings by the enacted tax rate of 29.5% mainly due to goodwill impairment which is non-deductible for tax purposes.

**Crocotta Energy Inc.**  
**Management's Discussion & Analysis**  
**Year ended December 31, 2008**

At December 31, 2008, the Company had approximately \$169.8 million in effective tax pools, losses, and share issue costs.

	December 31, 2008	December 31, 2007	% Change
(\$000s)			
Canadian oil and gas property expense (COGPE)	17,891	3,938	354
Canadian development expense (CDE)	39,072	28,234	38
Canadian exploration expense (CEE)	74,440	58,100	28
Undepreciated capital costs (UCC)	25,923	26,865	(4)
Non-capital losses carried forward	15,270	5,067	201
Capital losses carried forward	1,796	3,416	(47)
Share issue costs	2,504	2,387	5
Valuation allowance	(7,121)	(4,541)	57
<b>Total pools, losses, and share issue costs</b>	<b>169,775</b>	<b>123,466</b>	<b>38</b>

**Funds from Operations**

Funds from operations for the three months ended December 31, 2008 was \$3.5 million (\$0.09 per diluted share) compared to \$5.0 million (\$0.16 per diluted share) for the three months ended December 31, 2007. The decrease was a result of lower commodity prices in Q4 2008 compared to Q4 2007. For the year ended December 31, 2008, funds from operations was \$30.6 million (\$0.89 per diluted share) compared to \$6.4 million (\$0.39 per diluted share) for the year ended December 31, 2007. The significant increase year-over-year is a result of the Eastshore and Diamond Tree acquisitions in 2007, successful drilling efforts during the latter half of 2007 and during 2008, and a significant increase in oil, gas, and NGLs commodity prices in the first nine months of 2008 compared to 2007.

The following is a reconciliation of funds from operations to cash flow from operating activities for the periods noted:

	Three Months Ended December 31			Year Ended December 31		
	2008	2007	% Change	2008	2007	% Change
Funds from operations (non-GAAP)	3,463	4,997	(31)	30,607	6,405	378
Asset retirement expenditures	(122)	-	100	(122)	-	100
Change in non-cash working capital	(2,421)	(6,755)	(52)	(2,733)	(5,616)	(51)
<b>Cash flow from operating activities (GAAP)</b>	<b>920</b>	<b>(1,759)</b>	<b>108</b>	<b>27,752</b>	<b>789</b>	<b>3,417</b>

**Net Earnings**

The Company had a net loss of \$2.5 million (\$0.07 per diluted share) for the three months ended December 31, 2008 compared to a net loss of \$0.5 million (\$0.02 per diluted share) for the three months ended December 31, 2007. For the year ended December 31, 2008, the Company had net earnings of \$3.0 million (\$0.09 per diluted share) compared to a net loss of \$0.7 million (\$0.04 per diluted share) in 2007. Net earnings arose mainly from a significant increase in revenue as a result of an increase in oil, NGLs, and natural gas production during the year combined with substantial increases in oil, NGLs, and natural gas commodity prices in the first nine months of 2008. These increases were offset in the fourth quarter of 2008 as a result of a significant decline in oil, NGLs, and natural gas commodity prices and goodwill impairment of \$0.6 million.

**Capital Expenditures**

Net capital expenditures for the three months ended December 31, 2008 were \$34.8 million (2007 – \$88.9 million) and for the year ended December 31, 2008 were \$70.0 million (2007 – \$133.0 million).

(\$000s)	Three Months Ended December 31			Year Ended December 31		
	2008	2007	% Change	2008	2007	% Change
Land	5,323	3,132	70	18,653	6,685	179
Drilling, completions, and workovers	11,259	6,962	62	31,776	11,478	177
Equipment	1,866	2,494	(25)	6,054	3,034	100
Geological and geophysical	349	412	(15)	1,596	1,158	38
Other	252	-	100	885	32	2,666
<b>Total exploration and development</b>	<b>19,049</b>	<b>13,000</b>	<b>47</b>	<b>58,964</b>	<b>22,387</b>	<b>163</b>
Corporate acquisitions	16,575	75,866	(78)	16,575	110,632	(85)
Property dispositions	(827)	-	100	(5,579)	-	100
<b>Total capital expenditures</b>	<b>34,797</b>	<b>88,866</b>	<b>(61)</b>	<b>69,960</b>	<b>133,019</b>	<b>(47)</b>

During the fourth quarter of 2008, Crocotta drilled 3 (2.8 net) wells, which resulted in 1 (1.0 net) natural gas well, 1 (0.8 net) oil well and 1 (1.0 net) uneconomical well. During the year ended December 31, 2008, Crocotta drilled 11 (7.8 net) wells, which resulted in 5 (3.3 net) natural gas wells, 1 (0.8 net) oil well and 5 (3.7 net) uneconomical wells. Crocotta also recompleted 1 (0.7 net) well during the year, resulting in a successful natural gas well.

During the year, the Company increased its land holdings to 219,400 gross (168,000 net) acres at December 31, 2008, up from 98,200 gross (69,900 net) acres at December 31, 2007. During the year ended December 31, 2008, the Company significantly expanded its land positions in its key focus areas by acquiring approximately 11,700 net acres of Rock Creek land through crown land sales and approximately 12,000 net acres of Montney land through crown land sales and the corporate acquisition of Black Bore. The Company has now accumulated over 19,000 net acres of Montney land.

**Finding, Development and Acquisition Costs ("FD&A")**

FD&A costs reflect the efficiency and value added by the Company's capital spending. While NI 51-101 requires that the effects of acquisitions and dispositions be excluded, Crocotta has included these items because it believes that acquisitions can have a significant impact on the Company's ongoing reserve replacement costs and that excluding these amounts could result in an inaccurate portrayal of Crocotta's cost structure. The Company's FD&A costs for the period ended December 31, 2008 along with comparatives for the two prior years and a three year average are as follows:

(\$000's, except were noted)	2008		2007	
	Proved	Proved & Probable	Proved	Proved & Probable
Reserve additions (mboe) <sup>(1)</sup>	1,438	2,440	3,720	4,952
Capital expenditures	58,964	58,964	22,387	22,387
Property dispositions	(5,579)	(5,579)	-	-
Corporate acquisitions	16,575	16,575	110,632	110,632
Total, excluding future capital costs	69,960	69,960	133,019	133,019
Less: Undeveloped Montney land <sup>(2)</sup>	(22,547)	(22,547)	(12,105)	(12,105)
Total, excluding undeveloped Montney land and future capital costs	47,413	47,413	120,914	120,914
Add: Change in future capital costs <sup>(3)</sup>	(296)	7,190	5,123	8,847
Total, including undeveloped Montney land and future capital costs	69,664	77,150	138,142	141,866
FD&A costs, excluding undeveloped Montney land and future capital costs (\$/boe)	32.97	19.43	32.50	24.42
FD&A costs, excluding future capital costs (\$/boe)	48.65	28.67	35.76	26.86
FD&A costs, including undeveloped Montney land and future capital costs (\$/boe)	48.45	31.62	37.13	28.65

(\$000's, except were noted)	2006		3 Years	
	Proved	Proved & Probable	Proved	Proved & Probable
Reserve additions (mboe) <sup>(1)</sup>	394	728	5,552	8,120
Capital expenditures	2,420	2,420	83,771	83,771
Property acquisitions	6,556	6,556	977	977
Corporate acquisitions	504	504	127,711	127,711
Total, excluding future capital costs	9,480	9,480	212,459	212,459
Less: Undeveloped Montney land <sup>(2)</sup>	-	-	(34,652)	(34,652)
Total, excluding undeveloped Montney land and future capital costs	9,480	9,480	177,807	177,807
Add: Change in future capital costs <sup>(3)</sup>	1,983	3,051	6,810	19,088
Total, including undeveloped Montney land and future capital costs	11,463	12,531	219,269	231,547
FD&A costs, excluding undeveloped Montney land and future capital costs (\$/boe)	24.06	13.02	32.03	21.90
FD&A costs, excluding future capital costs (\$/boe)	24.06	13.02	38.27	26.16
FD&A costs, including undeveloped Montney land and future capital costs (\$/boe)	29.10	17.21	39.49	28.52

- (1) Based on total company interest reserves before deduction of royalties to others and including any royalty interest of Crocotta. Based on the evaluation by GLJ Petroleum Consultants Ltd. ("GLJ").
- (2) Undeveloped Montney land is displayed as a line item due to its materiality and effect on 2008 finding costs. As the Montney lands will be evaluated in future years, it is informative to show finding costs with and without these costs.
- (3) Future development capital expenditures required to recover reserves estimated by GLJ. The aggregate of the exploration and development costs incurred in the most recent financial period and the change during that period in estimated future development costs generally will not reflect total finding and development costs related to reserve additions for that period.

### **Liquidity and Capital Resources**

The Company had net debt of \$20.9 million at December 31, 2008 compared to net debt of \$11.5 million at December 31, 2007. The change of \$9.4 million was mainly due to \$59.0 million in capital expenditures, which were partially offset by property dispositions of \$5.6 million, net working capital obtained on corporate acquisitions of \$5.5 million, funds from operations of \$30.6 million, and a share financing of \$8.4 million, net of costs.

On October 31, 2008, the Company acquired all of the issued and outstanding shares of Black Bore. The aggregate consideration for the transaction was \$10.8 million, paid through the issuance of approximately 2.7 million common shares, \$2.9 million cash, and transaction costs of \$0.2 million. The primary assets of Black Bore were Dawson Montney lands consisting of a 5 section contiguous 100% working interest block of land, 2 wellbores that penetrate the Montney formation on the lands, access to the Doe Creek gas plant, and approximately 50 boepd of producing assets.

On November 5, 2008, the Company acquired all of the issued and outstanding shares of PrivateCo. The aggregate consideration for the transaction was \$10.1 million, paid through the issuance of approximately 4.2 million common shares and transaction costs of approximately \$0.2 million. The primary assets of PrivateCo were a \$9.7 million cash position, approximately 100 boepd of producing assets, and approximately \$23.0 million in tax pools.

At the time of the business combination, the Company agreed to pay additional consideration to the PrivateCo shareholders in the event the oil and natural gas properties acquired from PrivateCo are sold within 12 months of closing of the business combination for an amount exceeding \$3.0 million. Any proceeds received by Crocotta in excess of \$3.0 million will be paid to PrivateCo shareholders as follows:

- (a) 70% of the proceeds between \$3.0 million and \$5.0 million; and
- (b) 50% of the proceeds above \$5.0 million.

This contingent payment can be satisfied through the issuance of a maximum of 0.8 million additional Crocotta common shares to PrivateCo shareholders. At the Company's discretion, any excess consideration to be paid to PrivateCo shareholders may be paid in cash.

On December 16, 2008, Crocotta issued 4.0 million common shares on a flow-through basis at a price of \$2.25 per share for gross proceeds of \$9.0 million (\$8.4 million, net of costs). Crocotta is obligated to spend the full amount on qualifying exploration expenditures ("CEE") by the end of 2009.

Crocotta has total credit facilities of \$43.0 million with a Canadian chartered bank. This is comprised of a revolving operating demand loan credit facility of up to \$35.0 million bearing interest at prime plus a range of 0% to 1.50% and an \$8.0 million non-revolving acquisition/development demand loan facility bearing interest at prime plus 0.75% for acquisitions and prime plus 0.875% for development expenditures. The credit facility is secured by a \$75 million fixed and floating charge debenture on the assets of the Company. At December 31, 2008, \$15.7 million (2007 – \$5.9 million) had been drawn on the credit facility.

Subsequent to year-end, the Company increased its total credit facilities to \$46.0 million. The revolving demand loan increased to \$40.0 million bearing interest at prime plus a range of 0.25% to 2.50% and the acquisition/development demand loan decreased to \$6.0 million bearing interest at prime plus a range of 0.75% to 3.00%. The next review of the credit facilities by the bank is scheduled on or before September 30, 2009.

The Company anticipates it will make substantial capital expenditures for the acquisition, exploration, development and production of oil and natural gas reserves in the future. The Company will utilize internally generated cash flow from operations, debt where deemed appropriate, and equity financing if market conditions are favourable to finance its capital expenditures.

The current global financial crisis has reduced the liquidity in financial and capital markets, restricted access to financing and has caused significant volatility in commodity prices. These conditions will present challenges to world economies, to industry participants and to Crocotta. Operating results and management's capital investment decisions will be impacted. However, entities that possess strong cash generation from operations, a flexible capital program, low levels of bank debt and associated un-utilized bank credit facilities, are expected to be better positioned to manage through this current market crisis. Crocotta expects to continue to turn adversity into opportunity and emerge stronger from downturns faced by the industry. Crocotta has been diligent in responding to the restricted access to financing by closing its acquisition on November 5, 2008 of a private company whose primary asset was a \$9.7 million cash position and raising \$8.4 million, net of costs, through the issuance of 4.0 million common shares on a flow-through basis in December 2008. Crocotta will continue to pursue strategic opportunities as they arise with a focus on maintaining its strong financial flexibility. Crocotta's capital program is flexible, with the only commitments being \$9.0 million in capital expenditures arising from the December 2008 flow-through share issuance. At December 31, 2008, Crocotta had approximately \$22 million of available credit remaining on its credit facilities. Crocotta will continue to monitor forecasted debt levels to help ensure that debt covenants are not exceeded and that strong financial flexibility is maintained.

**Contractual Obligations**

The Company is committed to payments under an operating lease for office space, a capital lease for a field compression facility, and obligations under flow-through share agreements as follows:

(\$000s)	Total	Less than 1 year	1 – 3 years	After 3 years
Revolving credit facility	15,650	15,650	-	-
Operating lease	3,036	917	1,724	395
Capital lease	432	432	-	-
Flow-through commitment	9,000	9,000	-	-
<b>Total contractual obligations</b>	<b>28,118</b>	<b>25,999</b>	<b>1,724</b>	<b>395</b>

**Outstanding Share Data**

The Company is authorized to issue an unlimited number of voting common shares, an unlimited number of non-voting common shares, and Class A and Class B preferred shares, issuable in series. The voting common shares of the Company commenced trading on the TSX on October 17, 2007 under the symbol "CTA". The following table summarizes the common shares outstanding and the number of shares exercisable into common shares from options, warrants, and other instruments:

(000s)	December 31, 2008	March 23, 2009
Voting common shares	43,985	43,985
Options	3,045	4,077
Warrants	2,404	2,404
<b>Total</b>	<b>49,434</b>	<b>50,466</b>

**Related Party Transactions**

During the year, drilling services were performed for Crocotta by a private company that is partially owned by a director of Crocotta. The total amount of services performed for the Company during the year was \$0.9 million (2007 - \$0.6 million). At December 31, 2008, the Company did not have a balance outstanding to the related party.

**Outlook**

The oil and gas industry will face many economic challenges in 2009 due to the global economic downturn and the recession in the United States. Commodity prices have dropped precipitously as supplies continue to outweigh declining demand for both oil and gas resulting in materially reduced cash flows and increased debt ratios. This environment, combined with limited access to both debt and equity markets, will likely result in the consolidation of many of the Canadian oil and gas producers that will not be able to withstand further commodity price erosion.

As a result of lower prices and limited capital, the industry has reduced and or delayed capital spending as many projects are not economic or do not yield satisfactory returns. This will eventually lead to a balanced or undersupply of oil and gas worldwide causing prices to increase.

Crocotta has maintained a conservative capital structure and believes it will be able to withstand the current economic downturn and position itself for growth in the future. Crocotta will limit Q209-Q409 spending on acquisitions and drilling projects to the amount of cash flow generated from operations and minor property sales. Crocotta will look to further concentrate its assets to core areas via swaps of larger producing properties. Any drilling projects will be focused on key core areas, particularly Montney, and on taking advantage of the new Alberta royalty incentive program.

While the length of the world economic downturn is uncertain, Crocotta will be closely monitoring economic indicators as well as the oil and gas supply / demand equations in order to better predict the start of the next economic cycle. We believe that by the fall of 2009 there will be a greater understanding of when the world economies will start to recover and we will be able to develop a growth plan for 2010 and beyond.

**Critical Accounting Policies**

Management is required to make judgments, assumptions, and estimates in the application of generally accepted accounting principles that have a significant impact on the financial results of the Company. The following summarizes the accounting policies that are critical to determining the Company's financial results.

*Full Cost Accounting* - The Company follows the full cost method of accounting whereby all costs related to the acquisition of, exploration for, and development of oil and natural gas reserves are capitalized and charged against earnings. These costs, together with the estimated future costs to be incurred in developing proved reserves, are depleted or depreciated using the unit-of-production method based on the proved reserves before royalties as estimated by independent petroleum engineers. The costs of undeveloped properties are excluded from the costs subject to depletion and depreciation until it is determined whether proved reserves are attributable to the properties or impairment occurs. Reserve estimates can have a significant impact on earnings, as they are a key component in the calculation of depletion. A downward revision to the reserve estimate could result in higher depletion and thus lower net earnings. In addition, estimated reserves are also used in the calculation of the impairment (ceiling) test. Oil and natural gas properties are evaluated each reporting period through an impairment test to determine the recoverability of capitalized costs. The carrying amount is assessed as recoverable when the sum of the undiscounted cash flows expected from proved reserves plus the cost of unproved interests, net of impairments, exceeds the carrying amount. When the carrying amount is assessed not to be recoverable, an impairment loss is recognized to the extent that the carrying amount exceeds the sum of the discounted cash flows from proved and probable reserves plus the cost of unproved interests, net of impairments. The cash flows are estimated using expected future prices and costs and are discounted using a credit adjusted risk-free interest rate.

Proceeds from the sale of oil and natural gas properties are applied against capitalized costs, with no gain or loss recognized, unless such a sale would result in a change in the depletion rate of 20% or more.

*Oil and Natural Gas Reserves* - The Company's oil and natural gas reserves are evaluated and reported on by independent petroleum engineers. The estimates of reserves is a very subjective process as forecasts are based on engineering data, projected future rates of production, estimated future commodity prices and the timing of future expenditures, which are all subject to uncertainty and interpretation.

*Asset Retirement Obligations* - The Company is required to provide for future abandonment and site restoration costs. These costs are estimated based on existing laws, contracts or other policies. The obligations are initially measured at fair value and subsequently adjusted each reporting period for the passage of time, with the accretion charged to earnings, and for revisions to the estimated future cash flows. The asset retirement cost is capitalized to oil and natural gas properties and equipment and amortized into earnings on a basis consistent with depletion and depreciation. The estimate of future abandonment and site restoration costs involves estimates relating to the timing of abandonment, the economic life of the asset and the costs associated with abandonment and site restoration which are all subject to uncertainty and interpretation.

*Goodwill* - As a result of the acquisition of Black Bore, the Company recorded goodwill of \$2.0 million based on the excess of total consideration paid less the value assigned to the identifiable assets and liabilities acquired. The goodwill balance is assessed for impairment annually at year-end or more frequently if events or changes in circumstances indicate that the asset may be impaired. Impairment is charged to earnings in the period in which it occurs. The Company determined that the full carrying amount of goodwill of \$2.0 million was impaired at December 31, 2008.

#### **New Accounting Standards Adopted**

The Company has evaluated the impact of these new standards and determined that the adoption of these standards has had no material impact on the Company's net earnings or cash flows. The other effects of the implementation of the new standards are discussed below.

#### *Capital Disclosures*

Effective January 1, 2008, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1535, *Capital Disclosures*. Section 1535 requires disclosure about the Company's objectives, policies, and processes for managing capital. These disclosures include a description of what the Company manages as capital, the nature of externally imposed capital requirements, how the requirements are incorporated into the Company's management of capital, whether the requirements have been complied with, or consequences of non-compliance, and an explanation of how the Company is meeting its objectives for managing capital. Refer to note 11 to the annual financial statements.

#### *Financial Instruments*

Effective January 1, 2008, the Company adopted CICA Handbook Section 3862, *Financial Instruments - Disclosures* and Section 3863, *Financial Instruments - Presentation*, which replaced Section 3861, *Financial Instruments - Disclosure and Presentation*. Section 3862 outlines the disclosure requirements for financial instruments and non-financial derivatives. Specifically, Section 3862 requires disclosure of the significance of financial instruments on the Company's financial position and how the Company manages the risks associated with financial instruments. Section 3863 establishes standards for presentation of financial instruments and non-financial derivatives, which are relatively unchanged from Section 3861. Refer to note 12 to the annual financial statements for the additional disclosures under Section 3862.

#### **Recent Accounting Pronouncements**

#### *Goodwill*

Effective January 1, 2009, the Company will be required to adopt CICA Handbook Section 3064, *Goodwill and Intangible Assets*, which will replace the existing Goodwill and Intangible Assets standard. The new standard revises the requirement for recognition, measurement, presentation, and disclosure of intangible assets. The Company does not expect the adoption of this standard to have a material impact on the Company's financial statements.

*International Financial Reporting Standards (IFRS)*

The Accounting Standards Board confirmed recently that public companies will be required to report under IFRS effective January 1, 2011. The Company has not completed development of its IFRS changeover plan, which will include project structure and governance, resourcing and training, analysis of key GAAP differences and a phased plan to assess accounting policies under IFRS as well as potential IFRS 1 exemptions. The Company hopes to complete its project scoping, which will include a timetable for assessing the impact on data systems, internal controls over financial reporting, and business activities, such as financing and compensation arrangements, by the end of the third quarter of 2009.

The IASB has issued an exposure draft relating to certain amendments to IFRS 1 in order to make it more useful to Canadian entities adopting IFRS for the first time. One such exemption relating to full cost oil and gas accounting is expected to result in a reduced administrative transition from the current Canadian AcG-16 to IFRS. This exposure draft will not result in an amended IFRS 1 standard until late in 2009. The amendment will potentially permit the Company to apply IFRS prospectively to their full cost pool, rather than the retrospective assessment of capitalized exploration and development expenses, with the provision that a ceiling test, under IFRS standards, be conducted at the transition date.

**Risk Assessment**

The acquisition, exploration, and development of oil and natural gas properties involves many risks common to all participants in the oil and natural gas industry. Crocotta's exploration and development activities are subject to various business risks such as unstable commodity prices, interest rate and foreign exchange fluctuations, the uncertainty of replacing production and reserves on an economic basis, government regulations, taxes and safety and environmental concerns. While the management of Crocotta realizes these risks cannot be eliminated, they are committed to monitoring and mitigating these risks. The Company currently does not have any commodity price, interest rate, or foreign exchange contracts in place.

**Reserves and Reserve Replacement**

The recovery and reserve estimates on Crocotta's properties are estimates only and the actual reserves may be materially different from that estimated. The estimates of reserve values are based on a number of variables including price forecasts, projected production volumes and future production and capital costs. All of these factors may cause estimates to vary from actual results.

Crocotta's future oil and natural gas reserves, production, and funds from operations to be derived therefrom are highly dependent on Crocotta successfully acquiring or discovering new reserves. Without the continual addition of new reserves, any existing reserves Crocotta may have at any particular time and the production therefrom will decline over time as such existing reserves are exploited. A future increase in Crocotta's reserves will depend on its abilities to acquire suitable prospects or properties and discover new reserves.

To mitigate this risk, Crocotta has assembled a team of experienced technical professionals who have expertise operating and exploring in areas which Crocotta has identified as being the most prospective for increasing Crocotta's reserves on an economic basis. To further mitigate reserve replacement risk, Crocotta has targeted a majority of its prospects in areas which have multi-zone potential, year-round access and lower drilling costs and employs advanced geological and geophysical techniques to increase the likelihood of finding additional reserves.

**Operational Risks**

Crocotta's operations are subject to the risks normally incidental to the operation and development of oil and natural gas properties and the drilling of oil and natural gas wells. Continuing production from a property, and to some extent the marketing of production therefrom, are largely dependent upon the ability of the operator of the property.

**Commodity Price Risk**

The Company's oil and natural gas production is marketed and sold on the spot market to area aggregators based on daily spot prices that are adjusted for product quality and transportation costs. The Company is exposed to foreign currency fluctuations as crude oil prices received are referenced to U.S. dollar denominated prices.

**Safety and Environmental Risks**

The oil and natural gas business is subject to extensive regulation pursuant to various municipal, provincial, national, and international conventions and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with oil and natural gas operations. Crocotta is committed to meeting and exceeding its environmental and safety responsibilities. Crocotta has implemented an environmental and safety policy that is designed, at a minimum, to comply with current governmental regulations set for the oil and natural gas industry. Changes to governmental regulations are monitored to ensure compliance. Environmental reviews are completed as part of the due diligence process when evaluating acquisitions. Environmental and safety updates are presented and discussed at each Board of Directors meeting. Crocotta maintains adequate insurance commensurate with industry standards to cover reasonable risks and potential liabilities associated with its activities as well as insurance coverage for officers and directors executing their corporate duties. To the knowledge of management, there are no legal proceedings to which Crocotta is a party or of which any of its property is the subject matter, nor are any such proceedings known to Crocotta to be contemplated.

**Disclosure Controls and Procedures and Internal Controls over Financial Reporting**

The Company's President and Chief Executive Officer ("CEO") and Vice President Finance and Chief Financial Officer ("CFO") are responsible for establishing and maintaining disclosure controls and procedures and internal controls over financial reporting as defined in Multilateral Instrument 52-109 of the Canadian Securities Administrators.

Disclosure controls and procedures have been designed to ensure that information required to be disclosed by the Company is accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosure. The Company evaluated its disclosure controls and procedures for the year ended December 31, 2008. The Company's CEO and CFO have concluded that, based on their evaluation, the Company's disclosure controls and procedures are effective to provide reasonable assurance that all material or potentially material information related to the Company is made known to them and is disclosed in a timely manner if required.

Internal controls over financial reporting have been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. The Company's internal control over financial reporting includes those policies and procedures that: pertain to the maintenance of records that in reasonable detail accurately and fairly reflect transactions and disposition of the assets; provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles and that receipts and expenditures of assets are being made only in accordance with authorizations of management and directors; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of assets that could have a material effect on the financial statements.

The Company evaluated the effectiveness of our internal control over financial reporting as of December 31, 2008. In making this evaluation, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. The Company's CEO and CFO have concluded that, based on their evaluation, the Company's internal control over financial reporting was effective as of December 31, 2008. No material changes in the Company's internal controls over financial reporting were identified during the most recent reporting period that have materially affected, or are likely to material affect, the Company's internal controls over financial reporting.

Because of their inherent limitations, disclosure controls and procedures and internal controls over financial reporting may not prevent or detect misstatements, errors, or fraud. Control systems, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control systems are met.

## Management's Report

### To the Shareholders of Crocotta Energy Inc.

The accompanying financial statements of Crocotta Energy Inc. and all other financial and operating information in this report are the responsibility of management. The financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada. The financial and operating information presented in this report is consistent with that shown in the financial statements.

Management has designed and maintains a system of internal controls to provide reasonable assurance that assets are properly safeguarded and that the financial records are accurately maintained to provide relevant, timely and reliable information to management. Where estimates are used in the preparation of the financial statements, management has determined such amounts on a reasonable basis to ensure that the financial statements are presented fairly, in all material respects.

The Board of Directors is responsible for ensuring that management fulfils its responsibilities for financial reporting, and has reviewed and approved these financial statements and Management's Discussion and Analysis on the recommendation of the Audit Committee.

The financial statements have been audited by KPMG LLP, the external auditors, in accordance with Canadian generally accepted auditing standards on behalf of the shareholders. KPMG LLP has full and unrestricted access to the Audit Committee.

signed "Rob Zakresky"

**Rob Zakresky**  
President, Chief Executive Officer and Director

Calgary, Canada  
March 23, 2009

signed "Nolan Chicoine"

**Nolan Chicoine**  
Vice President, Finance and Chief Financial Officer

## Auditors' Report

### To the Shareholders of Crocotta Energy Inc.

We have audited the balance sheets of Crocotta Energy Inc. as at December 31, 2008 and 2007 and the statements of operations, comprehensive earnings (loss) and retained earnings (deficit) and cash flows for the years 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 December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

signed "KPMG LLP"

Chartered Accountants

Calgary, Canada  
March 23, 2009

**Crocotta Energy Inc.**  
**Balance Sheets**

<b>As at December 31,</b>	<b>2008</b>	<b>2007</b>
(\$000s)		
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	-	3,003
Accounts receivable	<b>5,982</b>	8,414
Prepaid expenses and deposits	<b>1,452</b>	1,366
	<b>7,434</b>	12,783
Oil and natural gas properties and equipment (note 5)	<b>180,553</b>	134,848
	<b>187,987</b>	147,631
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities	<b>12,296</b>	18,170
Revolving credit facility (note 6)	<b>15,650</b>	5,850
Current portion of capital lease (note 8)	<b>432</b>	218
	<b>28,378</b>	24,238
Asset retirement obligations (note 7)	<b>4,158</b>	3,050
Capital lease (note 8)	-	432
Deferred gain (note 2(a))	<b>7,431</b>	-
Future income tax liability (note 9(b))	<b>1,595</b>	2,014
Shareholders' equity:		
Capital stock (note 10)	<b>144,593</b>	119,838
Contributed surplus (note 10(c))	<b>1,002</b>	203
Retained earnings (deficit)	<b>830</b>	(2,144)
	<b>146,425</b>	117,897
Subsequent event (note 6)		
Commitments (note 14)		
	<b>187,987</b>	147,631

See accompanying notes to the financial statements

Approved by the Board of Directors:

Director, "signed" Rob Zakresky

Director, "signed" Larry Moeller

**Crocotta Energy Inc.****Statements of Operations, Comprehensive Earnings (Loss), and Retained Earnings (Deficit)**

<b>Year Ended December 31,</b>	<b>2008</b>	<b>2007</b>
(\$000s, except per share amounts)		
<b>Revenue:</b>		
Oil and natural gas sales	<b>54,468</b>	14,378
Royalties	<b>(10,952)</b>	(2,741)
Interest income	<b>-</b>	336
	<b>43,516</b>	11,973
<b>Expenses:</b>		
Production	<b>7,777</b>	2,626
Transportation	<b>862</b>	222
General and administrative	<b>3,668</b>	2,618
Interest expense	<b>602</b>	102
Depletion, depreciation and accretion	<b>24,776</b>	8,113
Stock-based compensation	<b>670</b>	169
Goodwill impairment (note 4)	<b>607</b>	-
	<b>38,962</b>	13,850
Earnings (loss) before income taxes	<b>4,554</b>	(1,877)
<b>Income Taxes:</b>		
Future income tax expense (recovery)	<b>1,580</b>	(1,138)
Net earnings (loss) and comprehensive earnings (loss) for the year	<b>2,974</b>	(739)
Deficit, beginning of year	<b>(2,144)</b>	(1,405)
Retained earnings (deficit), end of year	<b>830</b>	(2,144)
Net earnings (loss) per share:		
Basic and diluted	<b>0.09</b>	(0.04)

See accompanying notes to the financial statements

**Crocotta Energy Inc.**  
**Statements of Cash Flows**

Year Ended December 31,	2008	2007
(\$000s)		
<b>Cash provided by (used in):</b>		
<b>Operating:</b>		
Net earnings (loss)	2,974	(739)
Items not affecting cash:		
Depletion, depreciation and accretion	24,776	8,113
Stock-based compensation	670	169
Goodwill impairment	607	-
Future income tax expense (recovery)	1,580	(1,138)
	<b>30,607</b>	6,405
Asset retirement expenditures	(122)	-
Net change in non-cash working capital (note 13)	(2,733)	(5,616)
	<b>27,752</b>	789
<b>Financing:</b>		
Issuance of capital stock	9,000	42,617
Share issue costs	(643)	(421)
Repayment of debt acquired through business combinations (note 2)	-	(38,319)
Bank loan	9,800	5,850
Capital lease payments	(218)	(56)
	<b>17,939</b>	9,671
<b>Investing:</b>		
Purchase and development of oil and natural gas properties and equipment	(58,964)	(22,387)
Disposition of oil and natural gas properties and equipment (note 3)	5,579	-
Business combinations (note 2)	7,382	(8,536)
Net change in non-cash investing working capital (note 13)	(2,691)	7,618
	<b>(48,694)</b>	(23,305)
Change in cash and cash equivalents	(3,003)	(12,845)
Cash and cash equivalents, beginning of year	3,003	15,848
Cash and cash equivalents, end of year	-	3,003

See accompanying notes to the financial statements

*(Tabular amounts in 000s, unless otherwise stated)*

## **1. SIGNIFICANT ACCOUNTING POLICIES**

### **a) Basis of presentation**

Crocotta Energy Inc. ("Crocotta" or the "Company") is an oil and natural gas company, actively engaged in the acquisition, development, exploration, and production of oil and natural gas reserves in Western Canada. On November 15, 2006, Crocotta commenced active oil and natural gas operations with the acquisition of certain oil and natural gas properties from Chamaelo Exploration Ltd. The Company commenced trading on the Toronto Stock Exchange on October 17, 2007 under the symbol "CTA".

These financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada.

### **b) Oil and natural gas properties and equipment**

The Company follows the full cost method of accounting whereby all costs related to the acquisition of, exploration for, and development of oil and natural gas reserves are capitalized. Such costs include land acquisition costs, geological and geophysical expenses, production equipment, carrying charges of non-producing properties, costs of drilling both productive and non-productive wells, and overhead charges directly related to acquisition, exploration, and development activities.

These costs, together with the estimated future costs to be incurred in developing proved reserves, are depleted or depreciated using the unit-of-production method based on the proved reserves before royalties as estimated by independent petroleum engineers. Oil and natural gas reserves and production are converted into equivalent units based upon estimated relative energy content of six thousand cubic feet of natural gas to one barrel of oil. The costs of undeveloped properties are excluded from the costs subject to depletion and depreciation until it is determined whether proved reserves are attributable to the properties or impairment occurs.

Oil and natural gas properties are evaluated each reporting period through an impairment test to determine the recoverability of capitalized costs. The carrying amount is assessed as recoverable when the sum of the undiscounted cash flows expected from proved reserves plus the cost of unproved interests, net of impairments, exceeds the carrying amount. When the carrying amount is assessed not to be recoverable, an impairment loss is recognized to the extent that the carrying amount exceeds the sum of the discounted cash flows from proved and probable reserves plus the cost of unproved interests, net of impairments. The cash flows are estimated using expected future prices and costs and are discounted using a credit adjusted risk-free interest rate.

Proceeds from the sale of oil and natural gas properties are applied against capitalized costs, with no gain or loss recognized, unless such a sale would result in a change in the depletion rate of 20% or more.

A significant portion of the Company's oil and natural gas activities are conducted jointly with others and accordingly these financial statements reflect only the Company's proportionate interest in such activities.

### **c) Office and other equipment**

Office and other equipment are depreciated using the straight-line method over the estimated useful life of three years.

### **d) Goodwill**

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the fair value of the net identifiable assets and liabilities of the acquired business. Goodwill is stated at cost less impairment and is not amortized. The goodwill balance is assessed for impairment annually at year-end or more frequently if events or changes in circumstances indicate that the asset may be impaired. The test for impairment is conducted by the comparison of the net book value to the fair value of the Company. If the fair value of the Company is less than the net book value, impairment is deemed to have occurred. The extent of the impairment is measured by allocating the fair value of the Company to the identifiable assets and liabilities at their fair values. Any remainder of this allocation is the implied fair value of goodwill. Any excess of the net book value of goodwill over this implied value is the impairment amount. Impairment is charged to earnings in the period in which it occurs.

### **e) Asset retirement obligations ("ARO")**

The Company recognizes the liability associated with future site reclamation costs in the financial statements at the time when the liability is incurred, normally when the asset is purchased or developed. ARO obligations are initially measured at fair value and subsequently adjusted each reporting period for the passage of time, with the accretion charged to earnings, and for revisions to the estimated future cash flows. The asset retirement cost is capitalized to oil and natural gas properties and equipment and amortized into earnings on a basis consistent with depletion and depreciation. Actual costs incurred upon settlement of the obligations are charged against the liability.

*(Tabular amounts in 000s, unless otherwise stated)*

**f) Flow-through shares**

The Company may finance a portion of its exploration and development activities through the issuance of flow-through common shares. Under the terms of the flow-through share agreements, the resource expenditure deductions for income tax purposes are renounced to investors in accordance with the appropriate income tax legislation. The Company provides for the future effect on income taxes related to flow-through shares as a charge to share capital in the period in which the expenditures are renounced.

**g) Stock-based compensation**

The Company has a stock-based compensation plan, which is described in note 10(e). The Company applies the fair value method for valuing stock options granted to officers, directors, employees and consultants. Under this method, compensation cost attributable to stock options granted to officers, directors, employees and consultants is measured at fair value and expensed over the vesting period with a corresponding increase to contributed surplus. Upon the exercise of the stock options, consideration paid together with the amount previously recognized in contributed surplus is recorded as an increase to share capital.

**h) Use of estimates**

The amounts recorded for depletion and depreciation, asset retirement obligations, stock-based compensation, purchase accounting for acquisitions, and the amounts used in impairment test calculations are based on estimates of proved reserves, production rates, oil and natural gas prices, future costs, and other relevant assumptions. By their nature, these estimates are subject to change and the effect on the financial statements of changes in such estimates in future periods could be significant.

**i) Revenue recognition**

Oil and natural gas revenues are recognized when title and risk pass to the purchaser, normally at the pipeline delivery point.

**j) Cash and cash equivalents**

Cash and cash equivalents includes short-term investments, such as money market deposits or similar type instruments, with maturity of three months or less when purchased.

**k) Income taxes**

The Company follows the asset and liability method of accounting for future income taxes, whereby temporary differences arising from the difference between the tax basis of an asset or liability and its carrying amount on the balance sheet are used to calculate future income tax liabilities or assets. Future income tax liabilities or assets are calculated using tax rates anticipated to apply in the periods that the temporary differences are expected to reverse.

**l) Per share information**

Per share information is computed using the weighted average number of common shares outstanding during the period. Diluted per share information is calculated using the treasury stock method, which assumes that any proceeds from the exercise of stock options, warrants, and other instruments would be used to purchase common shares at the average market price during the period. No adjustment to diluted earnings per share is made if the result of these calculations is anti-dilutive.

**m) New accounting standards adopted**

The Company has evaluated the impact of these new standards and determined that the adoption of these standards has had no material impact on the Company's net earnings or cash flows. The other effects of the implementation of the new standards are discussed below.

*Capital Disclosures*

Effective January 1, 2008, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1535, *Capital Disclosures*. Section 1535 requires disclosure about the Company's objectives, policies, and processes for managing capital. These disclosures include a description of what the Company manages as capital, the nature of externally imposed capital requirements, how the requirements are incorporated into the Company's management of capital, whether the requirements have been complied with, or consequences of non-compliance, and an explanation of how the Company is meeting its objectives for managing capital.

*Financial Instruments*

Effective January 1, 2008, the Company adopted CICA Handbook Section 3862, *Financial Instruments – Disclosures* and Section 3863, *Financial Instruments – Presentation*, which replaced Section 3861, *Financial Instruments – Disclosure and Presentation*. Section 3862 outlines the disclosure requirements for financial instruments and non-financial derivatives. Specifically, Section 3862 requires disclosure of the significance of financial instruments on the Company's financial position and how the Company manages the risks associated with financial instruments. Section 3863 establishes standards for presentation of financial instruments and non-financial derivatives, which are relatively unchanged from Section 3861.

*(Tabular amounts in 000s, unless otherwise stated)*

Effective January 1, 2007, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1530, *Comprehensive Income*, Section 3251, *Equity*, Section 3855, *Financial Instruments – Recognition and Measurement*, Section 3861, *Financial Instruments – Disclosure and Presentation*, and Section 3865, *Hedges*, retroactively with no restatement of prior periods.

#### *Comprehensive Income*

The new standards introduce comprehensive income, which consists of net earnings and other comprehensive income ("OCI"). Because the Company does not have any OCI, the Company's financial statements do not include a Statement of Comprehensive Income which would otherwise describe the components of comprehensive income. Accordingly, since there are no cumulative changes in OCI to be included in accumulated other comprehensive income ("AOCI"), the Company has not presented AOCI as a new category within shareholders' equity in the balance sheet and has not included a Statement of Accumulated Other Comprehensive Income, which would otherwise provide the continuity of the AOCI balance.

#### *Financial Instruments*

The financial instruments standard establishes the recognition and measurement criteria for financial assets, financial liabilities and derivatives. All financial instruments are required to be measured at fair value on initial recognition of the instrument, except for certain related party transactions. Measurements in subsequent periods depends on whether the financial instrument has been classified as "held-for-trading", "available-for-sale", "held-to-maturity", "loans and receivables", or "other financial liabilities" as defined by the standard.

Financial assets and financial liabilities classified as "held-for-trading" are measured at fair value with changes in those fair values recognized in net earnings. Financial assets classified as "available-for-sale" are measured at fair value, with changes in those fair values recognized in OCI. Financial assets classified as "held-to-maturity", "loans and receivables" and "other financial liabilities" are measured at amortized cost using the effective interest method of amortization. The methods used by the Company in determining fair value of financial instruments are unchanged as a result of implementing the new standard.

Cash and cash equivalents are designated as "held-for-trading" and are measured at carrying value, which approximates fair value due to the short-term nature of these instruments. Accounts receivable and deposits are designated as "loans and receivables" and accounts payable and accrued liabilities are designated as "other liabilities".

Risk management assets and liabilities are derivative financial instruments classified as "held-for-trading" unless designated for hedge accounting. The Company has no commodity financial contracts or fixed-price physical contracts in place at this time.

#### *Section 1506 – Accounting Changes*

Effective January 1, 2007 the Company adopted Section 1506 "Accounting Changes" the only impact of which is to provide disclosure of when an entity has not applied a new source of GAAP that has been issued but is not yet effective. This is the case with Section 3064, *Goodwill and Intangible Assets* which is required to be adopted for fiscal years beginning on or after October 1, 2008. The Company adopted these standards on January 1, 2009 and the Company does not expect the adoption of this standard to have a material impact on the Company's financial statements.

### **n) Recent accounting pronouncements**

#### *Goodwill*

Effective January 1, 2009, the Company will be required to adopt CICA Handbook Section 3064, *Goodwill and Intangible Assets*, which will replace the existing Goodwill and Intangible Assets standard. The new standard revises the requirement for recognition, measurement, presentation, and disclosure of intangible assets. The Company does not expect the adoption of this standard to have a material impact on the Company's financial statements.

#### *International Financial Reporting Standards (IFRS)*

The Accounting Standards Board confirmed recently that public companies will be required to report under IFRS effective January 1, 2011. The Company has not completed development of its IFRS changeover plan, which will include project structure and governance, resourcing and training, analysis of key GAAP differences and a phased plan to assess accounting policies under IFRS as well as potential IFRS 1 exemptions. The Company hopes to complete its project scoping, which will include a timetable for assessing the impact on data systems, internal controls over financial reporting, and business activities, such as financing and compensation arrangements, by the end of the third quarter of 2009.

The IASB has issued an exposure draft relating to certain amendments to IFRS 1 in order to make it more useful to Canadian entities adopting IFRS for the first time. One such exemption relating to full cost oil and gas accounting is expected to result in a reduced administrative transition from the current Canadian AcG-16 to IFRS. This exposure draft will not result in an amended IFRS 1 standard until late in 2009. The amendment will potentially permit the Company to apply IFRS prospectively to their full cost pool, rather than the retrospective assessment of capitalized exploration and development expenses, with the provision that a ceiling test, under IFRS standards, be conducted at the transition date.

*(Tabular amounts in 000s, unless otherwise stated)*

## 2. ACQUISITIONS

### a) Private Company

On November 5, 2008, the Company closed a business combination whereby it acquired all of the issued and outstanding shares of a private company ("PrivateCo"). The following table details the purchase price allocation for the business combination, which is subject to final adjustments:

<b>Net assets acquired</b>	<b>Amount</b>
Oil and natural gas properties and equipment	3,237
Working capital, including cash of \$10.7 million	9,752
Asset retirement obligation	(778)
Future income tax asset	5,345
Deferred gain	(7,431)
	10,125
<b>Consideration of acquisition</b>	
Issuance of 4,199,454 common shares (note 10(b))	9,911
Transaction costs	214
	10,125

At the time of the business combination, the Company agreed to pay additional consideration to the PrivateCo shareholders in the event the oil and natural gas properties acquired from PrivateCo are sold within 12 months of closing of the business combination for an amount exceeding \$3.0 million. Any proceeds received by Crocotta in excess of \$3.0 million will be paid to PrivateCo shareholders as follows:

- (a) 70% of the proceeds between \$3.0 million and \$5.0 million; and
- (b) 50% of the proceeds above \$5.0 million.

In accordance with accounting principles generally accepted in Canada, the Company has recorded a deferred gain in the financial statements to reflect the potential liability to pay the additional consideration. This contingent payment can be satisfied through the issuance of a maximum of 0.8 million additional Crocotta common shares to PrivateCo shareholders. Any excess consideration to be paid to PrivateCo shareholders may be paid in cash.

The results of operations include net revenue from this transaction effective November 5, 2008.

### b) Black Bore Resources Ltd.

On October 31, 2008, the Company closed a Plan of Arrangement whereby it acquired all of the issued and outstanding shares of Black Bore Resources Ltd. ("Black Bore"). The following table details the purchase price allocation for the business combination, which is subject to final adjustments:

<b>Net assets acquired</b>	<b>Amount</b>
Oil and natural gas properties and equipment	13,337
Non-cash working capital deficit	(901)
Asset retirement obligation	(106)
Future income tax liability	(2,166)
Goodwill (note 4)	607
	10,771
<b>Consideration of acquisition</b>	
Cash	2,930
Issuance of 2,741,472 common shares (note 10(b))	7,621
Transaction costs	220
	10,771

The results of operations include net revenue from this transaction effective October 31, 2008.

**Crocotta Energy Inc.**  
**Notes to the Financial Statements**  
**Year ended December 31, 2008**

*(Tabular amounts in 000s, unless otherwise stated)*

**c) Diamond Tree Energy Ltd.**

On October 12, 2007, the Company closed a Plan of Arrangement whereby it acquired all of the issued and outstanding shares of Diamond Tree Energy Ltd ("Diamond Tree"). The following table details the purchase price allocation for the business combination:

<b>Net assets acquired</b>	<b>Amount</b>
Oil and natural gas properties and equipment	75,866
Non-cash working capital deficit	(5,396)
Bank debt	(33,453)
Capital lease	(488)
Asset retirement obligation	(1,785)
Future income tax liability	(2,425)
	<b>32,319</b>
<b>Consideration of acquisition</b>	
Issuance of 8,046,070 common shares (note 10(b))	32,587
Transaction costs	367
Purchase price adjustment	(635)
	<b>32,319</b>

The results of operations include net revenue from this transaction effective October 12, 2007.

**d) Eastshore Energy Ltd.**

On June 8, 2007, the Company closed a Plan of Arrangement whereby it acquired all of the issued and outstanding shares of Eastshore Energy Ltd. ("Eastshore"). The following table details the purchase price allocation for the business combination:

<b>Net assets acquired</b>	<b>Amount</b>
Oil and natural gas properties and equipment	34,766
Non-cash working capital	1,169
Bank debt	(4,867)
Asset retirement obligation	(707)
	<b>30,361</b>
<b>Consideration of acquisition</b>	
Cash	8,480
Issuance of 5,748,702 common shares (note 10(b))	21,558
Transaction costs	161
Purchase price adjustment	162
	<b>30,361</b>

The results of operations include net revenue from this transaction effective June 8, 2007.

**3. PROPERTY DISPOSITION**

During the year, the Company sold certain oil and natural gas properties to three unrelated parties for cash proceeds of approximately \$5.6 million. The following table details the allocation of the proceeds on disposition:

<b>Net assets disposed</b>	<b>Amount</b>
Oil and natural gas properties	5,808
Asset retirement obligation	(229)
	<b>5,579</b>

**4. GOODWILL**

Goodwill was recognized on October 31, 2008 as a result of the acquisition of Black Bore (note 2(b)). The Company reviewed the goodwill balance and determined that the full carrying amount was impaired. At December 31, 2008, the full carrying amount of goodwill of \$0.6 million was removed from the balance sheet and charged to earnings.

**Crocotta Energy Inc.**  
**Notes to the Financial Statements**  
**Year ended December 31, 2008**

*(Tabular amounts in 000s, unless otherwise stated)*

**5. OIL AND NATURAL GAS PROPERTIES AND EQUIPMENT**

	2008	2007
Oil and natural gas properties	212,185	141,990
Equipment under capital lease	763	763
Office and other equipment	329	264
	<b>213,277</b>	143,017
Accumulated depletion and depreciation	<b>(32,724)</b>	(8,169)
Net book value	<b>180,553</b>	134,848

As at December 31, 2008, the cost of oil and natural gas properties includes approximately \$38.0 million (2007 – \$14.9 million) relating to properties from which there is no production and no reserves assigned and which have been excluded from costs subject to depletion and depreciation. During the year ended December 31, 2008, the provision for depletion, depreciation and accretion includes \$0.2 million (2007 – \$0.1 million) for accretion of asset retirement obligations and \$0.1 million (2007 – \$0.1 million) for amortization of equipment under capital lease. During the year ended December 31, 2008, the Company capitalized \$0.6 million (2007 – \$0.4 million) of general and administrative costs and \$0.2 million (2007 - \$0.1 million) of stock-based compensation.

The Company performed an impairment test calculation at December 31, 2008 to assess the recoverable value of the oil and natural gas properties. The oil and natural gas future prices are based on January 1, 2009 commodity price forecasts of the Company's independent reserve evaluators. These prices have been adjusted for commodity price differentials specific to the Company. The following table summarizes the benchmark prices used in the impairment test calculation. Based on these assumptions, there was no impairment at December 31, 2008.

Year	WTI Oil (\$US/bbl)	Foreign Exchange Rate	Edmonton Light Crude Oil (\$Cdn/bbl)	AECO Gas (\$Cdn/mmbtu)
2009	57.50	0.825	68.61	7.58
2010	68.00	0.850	78.94	7.94
2011	74.00	0.875	83.54	8.34
2012	85.00	0.925	90.92	8.70
2013	92.01	0.950	95.91	8.95
2014	93.85	0.950	97.84	9.14
2015	95.73	0.950	99.82	9.34
2016	97.64	0.950	101.83	9.54
2017	99.59	0.950	103.89	9.75
2018	101.59	0.950	105.99	9.95
Escalate Thereafter	2.0% per year		2.0% per year	2.0% per year

**6. REVOLVING CREDIT FACILITY**

The Company has total credit facilities of \$43.0 million with a Canadian chartered bank. This is comprised of a revolving operating demand loan credit facility of up to \$35.0 million bearing interest at prime plus a range of 0% to 1.50% and an \$8.0 million non-revolving acquisition/development demand loan facility bearing interest at prime plus 0.75% for acquisitions and prime plus 0.875% for development expenditures. The credit facility is secured by a \$75 million fixed and floating charge debenture on the assets of the Company. At December 31, 2008, \$15.7 million (2007 – \$5.9 million) had been drawn on the credit facility.

Subsequent to year-end, the Company increased its total credit facilities to \$46.0 million. The revolving demand loan increased to \$40.0 million bearing interest at prime plus a range of 0.25% to 2.50% and the acquisition/development demand loan decreased to \$6.0 million bearing interest at prime plus a range of 0.75% to 3.00%. The next review of the credit facilities by the bank is scheduled on or before September 30, 2009.

**7. ASSET RETIREMENT OBLIGATIONS**

The Company's asset retirement obligations result from net ownership interests in oil and natural gas properties including well sites, gathering systems, and processing facilities. The Company estimates the total undiscounted amount of cash flows (adjusted for inflation at 2% per year) required to settle its asset retirement obligations is approximately \$10.9 million which is estimated to be incurred between 2009 and 2034. A credit-adjusted risk-free rate of 7% was used to calculate the fair value of the asset retirement obligations.

**Crocotta Energy Inc.**  
**Notes to the Financial Statements**  
**Year ended December 31, 2008**

*(Tabular amounts in 000s, unless otherwise stated)*

A reconciliation of the asset retirement obligations is provided below:

	2008	2007
Balance, January 1	3,050	173
Liabilities acquired upon Plans of Arrangement (note 2)	884	2,492
Liabilities incurred in year	269	311
Liabilities disposed through property dispositions (note 3)	(229)	-
Liabilities settled in year	(36)	-
Accretion expense	220	74
Balance, December 31	4,158	3,050

**8. CAPITAL LEASE OBLIGATION**

As a result of the acquisition of Diamond Tree (see note 2(c)), the Company acquired a lease obligation for a field compression facility. The lease obligation has an implicit interest rate of 7.9% and monthly instalments on the lease amount to \$21,766. Security for the lease is the equipment itself and the term of the lease is three years, with a December 2009 expiry.

The following is a reconciliation of combined annual repayments:

	Future Minimum Lease Payments	Executory Costs and Imputed Interest	Annual Principal Repayments
2009 – current portion	458	(26)	432
Total	458	(26)	432

**9. TAXES**

- a) The provision (recovery) of income taxes on the statement of operations, comprehensive income (loss), and deficit differs from the amount that would be computed by applying the expected tax rates to earnings (loss) before taxes. The reasons for the difference between such expected income tax expense (recovery) and the amount recorded are as follows:

Year ended December 31	2008	2007
Income tax rate	29.5%	32.1%
Expected income tax expense (recovery)	1,343	(603)
Increase (decrease) in income taxes resulting from:		
Goodwill impairment	179	-
Stock-based compensation and other non-deductible amounts	201	58
Rate reduction and other	82	56
Valuation allowance	(225)	(649)
	1,580	(1,138)

- b) The components of the net future income tax liability at December 31 are as follows:

	2008	2007
Future income tax assets (liabilities):		
Oil and natural gas properties and equipment	(5,879)	(4,605)
Asset retirement obligations	1,053	793
Capital lease	109	169
Share issue costs	634	620
Non-capital losses	3,865	1,318
Capital losses	227	444
Valuation allowance	(1,604)	(753)
Net future income tax liability	(1,595)	(2,014)

**Crocotta Energy Inc.**  
**Notes to the Financial Statements**  
**Year ended December 31, 2008**

*(Tabular amounts in 000s, unless otherwise stated)*

The Company has accumulated non-capital losses for income tax purposes of approximately \$15.3 million (2007 – \$5.1 million), which can be used to offset income in future periods. These losses expire as follows:

<b>Year of expiry</b>	<b>Amount</b>
2015	6,839
2014	2,055
2013	3,453
2012	1,798
2011	584
2010	541
	<b>15,270</b>

**10. SHARE CAPITAL**

**a) Authorized**

Unlimited number of voting common shares.  
 Unlimited number of non-voting common shares.  
 Class A preferred shares, issuable in series.  
 Class B preferred shares, issuable in series.

**b) Issued and outstanding**

	<b>Number</b>	<b>Amount</b>
<b>Voting common shares</b>		
Balance at December 31, 2006	7,980	24,224
Exercise of 2006 put and call obligations	2,037	6,110
Issued upon Plan of Arrangement to acquire Eastshore (note 2(d))	5,749	21,558
Private placement of flow-through shares	1,080	5,007
Exercise of 2007 put and call obligations	8,153	31,500
Issued upon Plan of Arrangement to acquire Diamond Tree (note 2(c))	8,046	32,587
Share issue costs	-	(421)
Future tax effect of flow-through share renunciation	-	(727)
Balance at December 31, 2007	33,045	119,838
Acquisition of Black Bore (note 2(b))	2,741	7,621
Acquisition of PrivateCo (note 2(a))	4,199	9,911
Private placement of flow-through shares	4,000	9,000
Share issue costs (net of future tax effect of \$0.2 million)	-	(475)
Future tax effect of flow-through share renunciation	-	(1,302)
Balance at December 31, 2008	43,985	144,593

During November 2006, Crocotta issued, by way of private placement, approximately 7.6 million shares for proceeds of approximately \$22.9 million. Of the 7.6 million shares issued, 0.5 million shares were issued on a flow-through basis at a price of \$3.00 per share and approximately 0.1 million shares were issued on a flow-through basis at a price of \$3.60 per share. In conjunction with the private placement, Crocotta entered into a put and call obligation agreement to issue approximately 2.0 million additional common shares at \$3.00 per share for proceeds of approximately \$6.1 million. The put and call obligation agreement was exercised during 2007.

During the year ended December 31, 2007, the Company renounced \$2.5 million in flow-through share obligations, relating to flow-through share issuances in November 2006. The Company issued approximately 1.1 million additional common shares on a flow-through basis during the year ended December 31, 2007 for cash consideration of \$5.0 million. Of these shares, 0.1 million were issued to directors and officers of the Company. The \$5.0 million in flow-through obligations was spent during the first quarter of 2008 on qualified capital expenditures.

Crocotta also entered into put and call financing arrangements to issue approximately 5.1 million common shares priced at \$3.75 per share for proceeds of \$19.0 million and approximately 3.1 million common shares priced at \$4.05 per share for gross proceeds of \$12.5 million for combined gross proceeds of \$31.5 million. The put and call financing arrangements were exercised on October 12, 2007 in conjunction with the acquisition of Diamond Tree.

During the year ended December 31, 2008, the Company renounced \$5.0 million in flow-through share obligations, relating to flow-through share issuances in June 2007. The Company issued 4.0 million additional common shares on a flow-through basis during the year ended December 31, 2008 for cash consideration of \$9.0 million. Crocotta is obligated to spend the full amount on qualifying exploration expenditures ("CEE") during 2009.

**Crocotta Energy Inc.**  
**Notes to the Financial Statements**  
**Year ended December 31, 2008**

*(Tabular amounts in 000s, unless otherwise stated)*

**c) Contributed surplus**

	2008	2007
Balance, beginning of year	203	-
Stock-based compensation	799	203
Balance, end of year	<b>1,002</b>	203

**d) Warrants**

The Company has an arrangement that allows warrants to be issued to directors, officers, and employees. The maximum number of common shares that may be issued, and that have been reserved for issuance under this arrangement, is 2.4 million. Warrants granted vest over three years and have exercise prices ranging from \$3.75 per share to \$6.75 per share.

During the year ended December 31, 2007, the Company issued 2.4 million warrants (all remain outstanding) as outlined below:

	Number of Warrants	Weighted Average Price (\$)	Exercisable at December 31, 2008	Expiry Date
Warrants				
- issued at \$3.75 per share	747	3.75	498	December 23, 2009
- issued at \$4.05 per share	21	4.05	14	December 23, 2009
- issued at \$4.50 per share	781	4.50	521	December 23, 2009
- issued at \$5.25 per share	54	5.25	36	December 23, 2009
- issued at \$6.00 per share	747	6.00	498	December 23, 2009
- issued at \$6.75 per share	54	6.75	36	December 23, 2009
	<b>2,404</b>	<b>4.80</b>	<b>1,603</b>	

The fair value of the warrants at the date of issue was determined to be \$nil using the minimum value method as they were issued prior to the Company becoming publicly traded.

**e) Stock options**

The Company has authorized and reserved for issuance 4.4 million common shares under a stock option plan enabling certain officers, directors, employees, and consultants to purchase common shares. The Company will not issue options exceeding 10% of the shares outstanding at the time of the option grants. Under the plan, the exercise price of each option equals the market price of the Company's shares on the date of the grant. The options vest over a period of 3 years and an option's maximum term is 5 years. As at December 31, 2008, 3.0 million options have been granted and are outstanding at prices ranging from \$2.10 to \$3.75 per share with expiry dates ranging from January 23, 2012 to November 11, 2013.

The Company had the following stock options outstanding at December 31, 2008:

	Number of Options	Weighted Average Price (\$)	Weighted Average Years to Expiry
Balance at December 31, 2007	2,727	3.01	4.60
Options granted	466	2.97	4.53
Options cancelled	(148)	3.00	4.20
Balance at December 31, 2008	<b>3,045</b>	<b>3.00</b>	<b>3.71</b>
Exercisable at December 31, 2008	906	3.01	3.60

**f) Stock-based compensation**

The compensation cost charged to earnings during the year ended December 31, 2008 for the stock option plan was \$0.7 million (2007 - \$0.2 million).

**Crocotta Energy Inc.**  
**Notes to the Financial Statements**  
**Year ended December 31, 2008**

*(Tabular amounts in 000s, unless otherwise stated)*

The Company applied the minimum value method to determine the fair value of approximately 0.9 million options that were granted prior to the Company becoming publicly traded on October 17, 2007. The fair value of the remaining 2.3 million options, which were granted subsequent to the Company becoming publicly traded (2008 – 0.5 million, 2007 – 1.8 million) was determined using the Black-Scholes option-pricing model with the following assumptions:

	Year Ended December 31, 2008	Year Ended December 31, 2007
Fair value per option	\$1.43	\$1.00
Risk-free rate	3.1%	4.0%
Expected life	4.0 years	4.0 years
Expected volatility	61.7%	41.0%
Dividend yield	-	-

**g) Per share information**

The weighted average number of shares outstanding for the determination of basic and diluted per share amounts are as follows:

	Year Ended December 31, 2008	Year Ended December 31, 2007
Basic and diluted	34,338	16,605

**11. CAPITAL DISCLOSURES**

The Company's objectives when managing capital are to maintain a flexible capital structure, which optimizes the cost of capital at an acceptable risk, and to maintain investor, creditor, and market confidence to sustain future development of the business.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. The Company considers its capital structure to include shareholders' equity and net debt (current liabilities, including the revolving credit facility, less current assets). To maintain or adjust the capital structure, the Company may, from time to time, issue shares, raise debt, and/or adjust its capital spending to manage its current and projected debt levels.

	December 31, 2008	December 31, 2007
Shareholders' equity	147,700	119,838
Net debt	20,155	11,455

In addition, management prepares annual, quarterly, and monthly budgets, which are updated depending on varying factors such as general market conditions and successful capital deployment. The annual budget is approved by the Board of Directors.

The Company's share capital is not subject to external restrictions; however, the Company's operating demand loan credit facility includes a covenant requiring the Company to maintain a working capital ratio of not less than one-to-one. The working capital ratio, as defined by its creditor, is calculated as current assets plus any undrawn amounts available on its credit facilities less current liabilities excluding any current portion drawn on the credit facility. The Company was fully compliant with this covenant at December 31, 2008.

There were no changes in the Company's approach to capital management from the previous year.

**12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

The Company is exposed to market risks related to the volatility of commodity prices, foreign exchange rates, and interest rates. The Company employs risk management strategies and policies to ensure that any exposure to risk is in compliance with the Company's business objectives and risk tolerance levels. Risk management is ultimately established by the Board of Directors and is implemented by management.

**a) Fair value of financial instruments**

The Company's financial assets and financial liabilities are comprised of cash and cash equivalents, accounts receivable, prepaid expenses and deposits, accounts payable and accrued liabilities, capital lease obligations (note 8), and amounts drawn on the revolving credit facility (note 6). The fair values of the Company's financial assets and financial liabilities approximate their carrying amount due to the short-term maturity of these instruments.

**b) Market risk**

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk is comprised of foreign currency risk, interest rate risk, and other price risk, such as commodity price risk. The objective of market risk management is to manage and control market price exposures within acceptable limits, while maximizing returns.

**Crocotta Energy Inc.**  
**Notes to the Financial Statements**  
**Year ended December 31, 2008**

*(Tabular amounts in 000s, unless otherwise stated)*

*Foreign exchange risk*

The prices received by the Company for the production of crude oil, natural gas, and NGLs are primarily determined in reference to U.S. dollars, but are settled with the Company in Canadian dollars. The Company's cash flow from commodity sales will therefore be impacted by fluctuations in foreign exchange rates. A \$0.01 increase or decrease in the Canadian/U.S. dollar exchange rate would have impacted net earnings and other comprehensive income by approximately \$0.3 million for the year ended December 31, 2008.

*Interest rate risk*

The Company is exposed to interest rate risk as it borrows funds at floating interest rates (note 6). In addition, the Company is exposed to interest rate risk to the Canada Revenue Agency for interest on unexpended funds on the Company's flow-through share obligations. The Company currently does not use interest rate hedges or fixed interest rate contracts to manage the Company's exposure to interest rate fluctuations. A 100 basis point increase or decrease in interest rates would have impacted net earnings and other comprehensive income by approximately \$0.1 million for the year ended December 31, 2008.

*Commodity price risk*

The Company's oil, natural gas, and NGLs production is marketed and sold on the spot market to area aggregators based on daily spot prices that are adjusted for product quality and transportation costs. The Company's cash flow from product sales will therefore be impacted by fluctuations in commodity prices. A \$1.00/boe increase or decrease in commodity prices would have impacted net earnings and other comprehensive income by \$0.5 million for the year ended December 31, 2008.

**c) Credit risk**

Credit risk represents the financial loss that the Company would suffer if the Company's counterparties to a financial instrument, in owing an amount to the Company, fail to meet or discharge their obligation to the Company. A substantial portion of the Company's accounts receivable and deposits are with customers and joint venture partners in the oil and natural gas industry and are subject to normal industry credit risks. The Company generally grants unsecured credit but routinely assesses the financial strength of its customers and joint venture partners.

The Company sells the majority of its production to three petroleum and natural gas marketers and therefore is subject to concentration risk. Historically, the Company has not experienced any collection issues with its petroleum and natural gas marketers. Joint venture receivables are typically collected within one to three months of the joint venture invoice being issued to the partner. The Company attempts to mitigate the risk from joint venture receivables by obtaining partner approval for significant capital expenditures prior to the expenditure being incurred. The Company does not typically obtain collateral from petroleum and natural gas marketers or joint venture partners; however, in certain circumstances, the Company may cash call a partner in advance of expenditures being incurred.

The maximum exposure to credit risk is represented by the carrying amount on the balance sheet. At December 31, 2008, there are no material financial assets that the Company considers impaired.

**d) Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's processes for managing liquidity risk include ensuring, to the extent possible, that it will have sufficient liquidity to meet its liabilities when they become due. The Company prepares annual, quarterly, and monthly capital expenditure budgets, which are monitored and updated as required, and requires authorizations for expenditures on projects to assist with the management of capital. In managing liquidity risk, the Company ensures that it has access to additional financing, including potential equity issuances and additional debt financing. The Company also mitigates liquidity risk by maintaining an insurance program to minimize exposure to insurable losses.

The following are the contractual maturities of financial liabilities at December 31, 2008:

<b>Financial Liability</b>	<b>Less than 1 Year</b>	<b>1 to less than 2 Years</b>	<b>Thereafter</b>	<b>Total</b>
Accounts payable and accrued liabilities	12,296	-	-	12,296
Revolving credit facility	15,650	-	-	15,650
Capital lease obligation	432	-	-	432
	<b>28,378</b>	<b>-</b>	<b>-</b>	<b>28,378</b>

**Crocotta Energy Inc.**  
**Notes to the Financial Statements**  
**Year ended December 31, 2008**

*(Tabular amounts in 000s, unless otherwise stated)*

**13. SUPPLEMENTAL CASH FLOW INFORMATION**

**a) Net change in non-cash working capital**

	Year Ended December 31, 2008	Year Ended December 31, 2007
Accounts receivable	2,432	(7,449)
Prepaid expenses and deposits	(86)	(1,257)
Accounts payable and accrued liabilities	(5,874)	14,717
Current portion of capital lease	-	218
Non-cash working capital deficiency acquired on Plan of Arrangements (see Note 2)	(1,896)	(4,227)
<b>Net change in non-cash working capital</b>	<b>(5,424)</b>	<b>2,002</b>
Relating to:		
Investing	(2,691)	7,618
Operating	(2,733)	(5,616)
<b>Net change in non-cash working capital</b>	<b>(5,424)</b>	<b>2,002</b>

**b) Interest and taxes**

	Year Ended December 31, 2008	Year Ended December 31, 2007
Cash interest received	20	336
Cash interest paid	(622)	(102)
	(602)	234
Cash taxes paid	-	-

**14. COMMITMENTS**

The Company is committed to payments under an operating lease for office space as follows:

	Amount
2009	917
2010	912
2011	812
2012	296
2013	99
	<b>3,036</b>

**15. RELATED PARTY TRANSACTIONS**

During the year, drilling services were performed for Crocotta by a private company that is partially owned by a director of Crocotta. The total amount of services performed for the Company during the year was \$0.9 million (2007 - \$0.6 million). At December 31, 2008, the Company did not have a balance outstanding to the related party.

# CORPORATE INFORMATION

## Officers And Directors

### **Robert J. Zakresky, CA**

*President, CEO & Director*

### **Nolan Chicoine, MPAcc, CA**

*VP Finance & CFO*

### **Terry L. Trudeau, P.Eng.**

*VP Operations & COO*

### **Weldon Dueck, BSc., P.Eng.**

*VP Business Development*

### **R.D. (Rick) Sereda, M.Sc., P.Geol.**

*VP Exploration*

### **Helmut R. Eckert, P.Land**

*VP Land*

### **Kevin Keith**

*VP Production*

### **Larry G. Moeller, CA, CBV**

*Chairman of the Board*

### **Daryl H. Gilbert, P.Eng.**

*Director*

### **Don Cowie**

*Director*

### **Brian Krausert**

*Director*

### **Gary W. Burns**

*Director*

### **Brian Boulanger**

*Director*

### **Don D. Copeland, P.Eng.**

*Director*

## Bank

National Bank of Canada  
2700, 530 - 8th Avenue SW  
Calgary, Alberta T2P 3S8

## Transfer Agent

Valiant Trust Company  
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Calgary, Alberta T2P 1T1

## Legal Counsel

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1400, 700 - 2nd Street SW  
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## Auditors

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Calgary, Alberta T2P 4B9

## Independent Engineers

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## Forward-Looking Statements

This Year-end Report may contain forward-looking information that involves a number of risks and uncertainties that could cause actual results to differ materially from those anticipated. For this purpose, any statements herein that are not statements of historical fact may be deemed to be forward-looking statements. Such risks and uncertainties include, but are not limited to: risks associated with the oil and gas industry (e.g. operational risks in exploration, development and production; changes and/or delays in the development of capital assets; uncertainty of reserve estimates; uncertainty of estimates and projections relating to production and costs; commodity price fluctuations; environmental risks; and industry competition).

For further information, please visit our website at [www.crocotta.ca](http://www.crocotta.ca)