



Press Release
Crocotta Announces 2010 Financial and Operating Results

Calgary, Alberta, March 24, 2011 - **CROCOTTA ENERGY INC. (TSX – CTA)** is pleased to announce its financial and operating results for year ended December 31, 2010, including financial statements, notes to the financial statements, and Management's Discussion and Analysis. All dollar figures are Canadian dollars unless otherwise noted.

HIGHLIGHTS

- Reduced net debt from \$70.7 million to \$35.2 million
- Property dispositions of \$50.6 million
- Reduced operating costs from \$10.37/boe to \$9.32/boe
- Increased proved plus probable reserves 22% to 16.1 million boe
- All-in finding, development and acquisition costs, including future development costs, on a proved plus probable basis of \$8.03 per boe
- Increase in Net Asset Value per share of 7.8% to \$2.78 per share at December 31, 2010
- Continued to prove up the large Montney resource in northeast British Columbia by drilling 2 (2.0 net) successful vertical tests
- Successfully began proving up the liquids-rich Bluesky resource at Edson, AB by drilling 3 (0.8 net) horizontal gas wells and 1 (0.4 net) oil well, setting up 100% locations for 2011
- Subsequent to year-end, raised gross proceeds of \$36.0 million through the issuance of approximately 15.6 million common shares at a price of \$2.30 per share

FINANCIAL	Three Months Ended December 31			Year Ended December 31		
	2010	2009	% Change	2010	2009	% Change
(\$000s, except per share amounts)						
Oil and natural gas sales	7,274	12,130	(40)	34,530	34,199	1
Funds from operations ⁽¹⁾	4,258	3,972	7	14,254	9,325	53
per share - basic and diluted	0.07	0.06	17	0.22	0.18	22
Net loss before extraordinary items	(1,140)	(4,155)	(73)	(7,414)	(14,572)	(49)
per share - basic and diluted	(0.02)	(0.06)	(67)	(0.11)	(0.28)	(61)
Net earnings (loss)	(1,140)	3,276	(135)	(7,414)	(7,141)	4
per share - basic and diluted	(0.02)	0.05	(140)	(0.11)	(0.14)	(21)
Capital expenditures	14,568	2,464	491	28,714	13,219	117
Corporate acquisition	-	229	(100)	-	84,544	(100)
Property acquisitions	-	(17)	(100)	-	2,425	(100)
Property dispositions	(28,532)	(9,687)	195	(50,630)	(10,553)	380
Net debt ⁽²⁾				35,200	70,656	(50)
Common shares outstanding (000s)						
weighted average - basic	65,142	64,719	1	65,129	51,883	26
weighted average - diluted	65,595	64,719	1	65,412	51,883	26
end of period - basic				65,142	65,084	-
end of period - diluted				72,540	74,760	(3)

(1) 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.

(2) Net debt includes current liabilities (including the revolving credit facility and secured bridge facility) less current assets and excludes the risk management contracts. Net debt 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.

OPERATING	Three Months Ended December 31			Year Ended December 31		
	2010	2009	% Change	2010	2009	% Change
Number of producing days	92	92		365	365	
Daily production						
Oil and liquids - (bbls/d)	647	1,140	(43)	746	912	(18)
Natural gas - (mcf/d)	9,958	12,157	(18)	10,485	9,450	11
Oil equivalent - (boe/d @ 6:1)	2,307	3,166	(27)	2,494	2,487	-
Revenue						
Oil and liquids - (\$/bbl)	61.04	66.58	(8)	62.79	58.65	7
Natural gas - (\$/mcf)	3.97	4.60	(14)	4.56	4.26	7
Oil equivalent - (boe/d @ 6:1)	34.27	41.64	(18)	37.94	37.68	1
Royalties						
Oil and liquids - (\$/bbl)	16.04	23.31	(31)	17.47	19.66	(11)
Natural gas - (\$/mcf)	(0.15)	0.15	(200)	0.17	0.14	21
Oil equivalent - (boe/d @ 6:1)	3.83	8.98	(57)	5.93	7.74	(23)
Production expenses						
Oil and liquids - (\$/bbl)	9.59	10.24	(6)	9.94	9.09	9
Natural gas - (\$/mcf)	1.56	1.36	15	1.51	1.85	(18)
Oil equivalent - (boe/d @ 6:1)	9.44	8.91	6	9.32	10.37	(10)
Transportation expenses						
Oil and liquids - (\$/bbl)	1.12	1.24	(10)	1.23	1.55	(21)
Natural gas - (\$/mcf)	0.20	0.16	25	0.18	0.17	6
Oil equivalent - (boe/d @ 6:1)	1.18	1.06	11	1.13	1.21	(7)
Operating netback ⁽¹⁾						
Oil and liquids - (\$/bbl)	34.29	31.79	8	34.15	28.35	20
Natural gas - (\$/mcf)	2.36	2.93	(19)	2.70	2.10	29
Oil equivalent - (boe/d @ 6:1)	19.82	22.69	(13)	21.56	18.36	17
Other income - (\$/boe)	4.75	-	100	1.11	-	100
Unrealized loss on investments - (\$/boe)	(0.41)	-	100	(0.10)	-	100
Realized gain (loss) on risk management contracts - (\$/boe)	0.10	(0.74)	(114)	(0.69)	(0.23)	200
Unrealized gain (loss) on risk management contracts - (\$/boe)	(0.35)	(0.73)	(52)	1.15	(1.15)	(200)
General and administrative expenses - (\$/boe)	(3.43)	(3.59)	(4)	(3.58)	(4.86)	(26)
Interest expense - (\$/boe)	(1.18)	(4.73)	(75)	(2.74)	(2.99)	(8)
Depletion, depreciation, and accretion - (\$/boe)	(22.76)	(24.47)	(7)	(25.30)	(27.10)	(7)
Stock-based compensation - (\$/boe)	(1.23)	(5.70)	(78)	(1.19)	(2.65)	(55)
Future income tax recovery (expense) - (\$/boe)	(0.68)	2.99	(123)	1.63	4.57	(64)
Gain on contingent consideration - (\$/boe)	-	25.51	(100)	-	8.19	(100)
Net earnings (loss) - (\$/boe)	(5.37)	11.23	(148)	(8.15)	(7.86)	4

(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.

President's Message

In 2010, Crocotta took several steps forward in transforming itself from a conventional producer to a resource-style producer. Conventional properties totaling approximately \$50 million were sold to strengthen the Company's financial position and allow for more capital to be spent on its key resource properties. Four wells were drilled into the Edson Bluesky pool to prove the concept that horizontal multi-frac wells would successfully work in this large resource and three vertical test wells were drilled into the Montney formation near Dawson in Northeast British Columbia. Both projects have resulted in material reserve additions and set up years of drilling for Crocotta.

Edson

Crocotta has assembled an average 75% working interest in over 65 sections of land in the Edson area in addition to owning a large gathering system and interests in two gas plants. The area is characterized by multiple horizons that are productive on the lands including Cardium, Notikewin and Bluesky formations.

During 2010, Crocotta drilled and completed four Bluesky horizontal multi-frac wells that resulted in one oil well and three liquids-rich gas wells. All wells were highly successful with the liquids-rich gas wells stabilizing at approximately 600 boepd and the oil well stabilizing at approximately 150 boepd. While the average working interest on these wells was relatively low (28%), Crocotta was able to prove up its offsetting 100% lands of which three 100% wells are scheduled to be drilled in the first half of 2011. The Bluesky gas well economics are materially enhanced due to the high liquids content produced (approximately 40% of total production).

Three vertical recompletions were performed in the Notikewin with average initial rates of approximately 160 boepd. Geological mapping and review of competitors' horizontal multi-frac wells have proven up numerous potential horizontal multi-frac wells on Crocotta lands for future exploitation.

Cardium oil is also present extensively on Company lands but has not been tested with horizontal multi-frac wells as of yet. Competitors are currently drilling horizontal multi-frac oil wells offsetting Company lands which could prove up a large oil resource on Crocotta lands. We are closely monitoring such activity to determine the commercial viability and will have a better understanding by the end of 2011.

Montney

Crocotta successfully drilled and completed three vertical tests targeting Montney in Northeast British Columbia and Northwest Alberta.

At Sunrise, a vertical test was completed in the Upper Montney which stabilized at 700 mcf per day. Horizontal wells drilled by competitors in the area have had initial stabilized rates of 4 mmcf/d to 14 mmcf/d (650 boepd – 2,300 boepd). Crocotta owns nine 100% working interest sections in the area with potential to drill four horizontal wells per section.

At Kilkerran, Crocotta participated in the drilling of a successful vertical test in the upper and lower Montney at rates of 500 mcf/d and 350 mcf/d respectively. Commercial horizontal developments have already been established on both sides of our lands which we believe are directly analogous to our tests. Crocotta owns an average 50% working interest in 12 sections of land in the area.

At Glacier, Crocotta drilled a successful vertical well to test the upper and lower Montney. The upper Montney had a stabilized rate of 900 mcf/d with the lower stabilizing at 400 mcf/d.

Crocotta is pleased with the results to date but will defer any horizontal wells until at least the fourth quarter pending an increase in natural gas pricing.

New projects

Given the strengthening of Crocotta's financial position as a result of asset sales and additional capital raised in early 2011, we are looking to add two to three oil projects during 2011. While we do not believe that the projects will have a material effect on 2011, such projects will assist in Crocotta's longer term strategy to become balanced from a commodity perspective.

We look forward to updating our shareholders on all projects as they develop through 2011.

Management's Discussion and Analysis ("MD&A")

March 21, 2011

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. The Company trades on the Toronto Stock Exchange 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, 2010 and 2009. The audited financial statements and financial data contained in the MD&A have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") in Canadian currency (except where noted as being in another currency).

Additional information related to the Company, including the Company's Annual Information Form (AIF), may be found on the SEDAR website at 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", "net debt", 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 (loss) plus non-cash items (depletion, depreciation and accretion, stock-based compensation, unrealized gains and losses on risk management contracts, unrealized gains and losses on investments, future income taxes, and extraordinary gains and losses) 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 uses net debt as a measure to assess the Company's financial position. Net debt includes current liabilities (including the revolving credit facility and secured bridge facility) less current assets and excludes the risk management contracts. 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 (loss) 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, capital programs, oil, NGLs, and natural gas commodity prices, and debt levels. 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, 2010

Summary of Financial Results	Three Months Ended December 31			Year Ended December 31		
	2010	2009	2008	2010	2009	2008
(\$000s, except per share amounts)						
Oil and natural gas sales	7,274	12,130	8,729	34,530	34,199	54,468
Funds from operations	4,258	3,972	3,463	14,254	9,325	30,607
per share - basic and diluted	0.07	0.06	0.09	0.22	0.18	0.89
Net loss before extraordinary items	(1,140)	(4,155)	(2,511)	(7,414)	(14,572)	2,974
per share - basic and diluted	(0.02)	(0.06)	(0.07)	(0.11)	(0.28)	0.09
Net earnings (loss)	(1,140)	3,276	(2,511)	(7,414)	(7,141)	2,974
per share - basic and diluted	(0.02)	0.05	(0.07)	(0.11)	(0.14)	0.09
Total assets				213,816	254,156	187,987
Total long-term liabilities				9,533	10,084	13,184
Net debt				35,200	70,656	20,944

Production	Three Months Ended December 31			Year Ended December 31		
	2010	2009	% Change	2010	2009	% Change
Average Daily Production						
Oil and NGLs (bbls/d)	647	1,140	(43)	746	912	(18)
Natural gas (mcf/d)	9,958	12,157	(18)	10,485	9,450	11
Total (boe/d)	2,307	3,166	(27)	2,494	2,487	-

Daily production for the three months ended December 31, 2010 decreased 27% to 2,307 boe/d compared to 3,166 boe/d for the comparative period in 2009. For the year ended December 31, 2010, daily production increased marginally to 2,494 boe/d from 2,487 boe/d for the year ended December 31, 2009. The decrease in production in the fourth quarter was due to the sale of certain oil and natural gas assets during 2010.

Crocotta's production profile in 2010 was comprised of 70% natural gas and 30% oil and NGLs. During the year ended December 31, 2009, Crocotta's production profile was comprised of 63% natural gas and 37% oil and NGLs. The change in the production profile was the result of the sale of certain oil weighted assets during 2010.

Revenue	Three Months Ended December 31			Year Ended December 31		
	2010	2009	% Change	2010	2009	% Change
(\$000s)						
Oil and NGLs	3,636	6,983	(48)	17,097	19,521	(12)
Natural gas	3,638	5,147	(29)	17,433	14,678	19
Total revenue	7,274	12,130	(40)	34,530	34,199	1
Average Sales Price						
Oil and NGLs (\$/bbl)	61.04	66.58	(8)	62.79	58.65	7
Natural gas (\$/mcf)	3.97	4.60	(14)	4.56	4.26	7
Average sales price (\$/boe)	34.27	41.64	(18)	37.94	37.68	1

Revenue totaled \$7.3 million for the fourth quarter of 2010, down 40% from \$12.1 million for the fourth quarter of 2009. For the year, revenue increased 1% to \$34.5 million in 2010 compared to \$34.2 million in 2009. The decrease in revenue in the fourth quarter of 2010 compared to 2009 was due to a decrease in production resulting from the sale of certain oil and natural gas assets during 2010 combined with a decrease in oil, natural gas, and NGLs commodity prices.

Crocotta Energy Inc.
Management's Discussion & Analysis
Year Ended December 31, 2010

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

Commodity Pricing	Three Months Ended December 31			Year Ended December 31		
	2010	2009	% Change	2010	2009	% Change
Oil and NGLs						
Corporate Price (\$Cdn/bbl)	61.04	66.58	(8)	62.79	58.65	7
West Texas Intermediate (\$US/bbl)	85.08	75.96	12	79.43	61.63	29
Edmonton Par (\$Cdn/bbl)	80.71	76.75	5	77.80	66.20	18
Natural gas						
Corporate Price (\$Cdn/mcf)	3.97	4.60	(14)	4.56	4.26	7
AECO Price (\$Cdn/mcf)	3.59	4.42	(19)	4.12	3.93	5
Exchange Rates						
U.S./Cdn. Dollar Average Exchange Rate	0.9875	0.9471	4	0.9711	0.8802	10

Corporate average oil and NGLs price were 75.6% and 80.7% of Edmonton Par price for the three months and year ended December 31, 2010, respectively. Corporate average natural gas prices were 110.6% and 110.7% of AECO prices for the three months and year ended December 31, 2010, 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 reference prices.

Future prices received from the sale of the products may fluctuate as a result of market factors. Other than noted below, the Company did not hedge any of its oil, NGLs or natural gas production in 2010. For 2010, the Company had hedges in the form of monthly settled puts (floors) as detailed below.

Product	Period	Production	Floor Price
Oil	January 2010 – December 2010	1,000 bbls/d	WTI CDN \$50.00/bbl
Gas	January 2010 – December 2010	10.0 mmcf/d	AECO CDN \$4.00/mcf

For the three months ended December 31, 2010, the realized gain on the risk management contracts was virtually \$nil (2009 - \$0.2 million realized loss) and the unrealized loss on the risk management contracts was \$0.1 million (2009 - \$0.2 million). For the year, the realized loss on the risk management contracts was \$0.6 million (2009 - \$0.2 million) and the unrealized gain on the risk management contracts was \$1.0 million (2009 - \$1.0 million unrealized loss).

Royalties (\$000s)	Three Months Ended December 31			Year Ended December 31		
	2010	2009	% Change	2010	2009	% Change
Oil and NGLs	955	2,445	(61)	4,757	6,542	(27)
Natural gas	(142)	171	(183)	640	482	33
Total royalties	813	2,616	(69)	5,397	7,024	(23)
Average Royalty Rate (% of sales)						
Oil and NGLs	26.3	35.0	(25)	27.8	33.5	(17)
Natural gas	(3.9)	3.3	(218)	3.7	3.3	12
Average royalty rate	11.2	21.6	(48)	15.6	20.5	(24)

The Company pays royalties to provincial governments (Crown), freeholders, which may be individuals or companies, and other oil and gas companies that own surface or mineral rights. Crown royalties are calculated on a sliding scale based on commodity prices and individual well production rates. Royalty rates can change due to commodity price fluctuations and changes in production volumes on a well-by-well basis, subject to a minimum and maximum rate restriction ascribed by the Crown.

For the three months ended December 31, 2010, oil, NGLs, and natural gas royalties decreased 69% to \$0.8 million compared to \$2.6 million for the comparative period. For the year ended December 31, 2010, oil, NGLs, and natural gas royalties decreased 23% to \$5.4 million compared to \$7.0 million for the year ended December 31, 2009. The decrease in royalties for the three months and year ended December 31, 2010 compared to the same period in 2009 was the result of a significant decrease in oil and NGLs royalties, which was due to the disposition of certain oil weighted assets in 2010. Natural gas royalties in Q4 2010 were negative as a result of a low natural gas commodity price environment combined with increases to the monthly capital cost and processing fee deductions. For the year ended December 31, 2010, natural gas royalties increased over prior period as a result of an increase in production and an increase in year-over-year commodity prices.

The overall effective royalty rate was 11.2% for the three months ended December 31, 2010, compared to 21.6% for the quarter ended December 31, 2009. For the year, the overall effective royalty rate was 15.6% in 2010 compared to 20.5% in 2009. The effective oil and NGLs royalty rate for the three months and year ended December 31, 2010 decreased as a result of the disposition of certain oil weighted assets during the year that had higher associated royalty rates. The effective natural gas royalty rate for the year ended December 31, 2010 increased from the comparative period due to an increase in year-over-year natural gas commodity prices.

Crocotta Energy Inc.
Management's Discussion & Analysis
Year Ended December 31, 2010

Production Expenses	Three Months Ended December 31			Year Ended December 31		
	2010	2009	% Change	2010	2009	% Change
Oil and NGLs (\$/bbl)	9.59	10.24	(6)	9.94	9.09	9
Natural gas (\$/mcf)	1.56	1.36	15	1.51	1.85	(18)
Total (\$/boe)	9.44	8.91	6	9.32	10.37	(10)

Per unit production expenses for the three months ended December 31, 2010 were \$9.44/boe, up from \$8.91/boe for the comparative period ended December 31, 2009. For the year, per unit production expenses declined 10% to \$9.32/boe in 2010 compared to \$10.37/boe in 2009.

Oil and NGLs per unit production expenses increased for the year ended December 31, 2010 from the comparative period in 2009 due to the disposition of certain oil weighted assets in 2010 that had lower associated production expenses. Natural gas per unit production expenses declined for the year ended December 31, 2010 from the comparative period in 2009 as a result of the acquisition of Salvo Energy Corporation ("Salvo") and other oil and natural gas assets in August 2009 which had lower associated operating costs. The natural gas assets acquired included ownership interests in two separate gas plants that generate processing and gathering income related to joint venture and third party production resulting in a reduction in production expenses. The Company continues to focus on opportunities that will improve operational efficiencies and reduce per boe production expenses to enhance netbacks.

Transportation Expenses	Three Months Ended December 31			Year Ended December 31		
	2010	2009	% Change	2010	2009	% Change
Oil and NGLs (\$/bbl)	1.12	1.24	(10)	1.23	1.55	(21)
Natural gas (\$/mcf)	0.20	0.16	25	0.18	0.17	6
Total (\$/boe)	1.18	1.06	11	1.13	1.21	(7)

Transportation expenses are mainly third-party pipeline tariffs incurred to deliver the products to the purchasers at main hubs. For the quarter ended December 31, 2010 compared to the quarter ended December 31, 2009, transportation expenses increased 11% to \$1.18/boe from \$1.06/boe. For the year, transportation expenses decreased to \$1.13/boe in 2010 from \$1.21/boe in 2009. Natural gas transportation expenses were consistent year-over-year, while oil and NGLs transportation expenses decreased significantly. The decrease in oil and NGLs transportation costs in 2010 from 2009 was due to an increase in the percentage of NGLs volumes produced in 2010 combined with a change in marketer and sales point for a significant portion of NGLs volumes produced.

Operating Netback	Three Months Ended December 31			Year Ended December 31		
	2010	2009	% Change	2010	2009	% Change
Oil and NGLs (\$/bbl)						
Revenue	61.04	66.58	(8)	62.79	58.65	7
Royalties	16.04	23.31	(31)	17.47	19.66	(11)
Production expenses	9.59	10.24	(6)	9.94	9.09	9
Transportation expenses	1.12	1.24	(10)	1.23	1.55	(21)
Operating netback	34.29	31.79	8	34.15	28.35	20

Natural gas (\$/mcf)						
Revenue	3.97	4.60	(14)	4.56	4.26	7
Royalties	(0.15)	0.15	(200)	0.17	0.14	21
Production expenses	1.56	1.36	15	1.51	1.85	(18)
Transportation expenses	0.20	0.16	25	0.18	0.17	6
Operating netback	2.36	2.93	(19)	2.70	2.10	29

Combined (\$/boe) (6:1)						
Revenue	34.27	41.64	(18)	37.94	37.68	1
Royalties	3.83	8.98	(57)	5.93	7.74	(23)
Production expenses	9.44	8.91	6	9.32	10.37	(10)
Transportation expenses	1.18	1.06	11	1.13	1.21	(7)
Operating netback	19.82	22.69	(13)	21.56	18.36	17

During the fourth quarter of 2010, Crocotta generated an operating netback of \$19.82/boe, down 13% from \$22.69/boe for the fourth quarter of 2009. The decrease was mainly due to a decline in oil, NGLs, and natural gas commodity prices offset by a decline in royalties. For the year, the Company generated an operating netback of \$21.56/boe in 2010, up 17% from \$18.36/boe in 2009. The increase in the operating netback was mainly due to decreases in royalties, production expenses, and transportation expenses.

Crocotta Energy Inc.
Management's Discussion & Analysis
Year Ended December 31, 2010

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		
	2010	2009	% Change	2010	2009	% Change
Operating netback	19.82	22.69	(13)	21.56	18.36	17
Other income	4.75	-	100	1.11	-	100
Unrealized loss on investments	(0.41)	-	100	(0.10)	-	100
Realized gain (loss) on risk management						
Contracts	0.10	(0.74)	(114)	(0.69)	(0.23)	200
Unrealized gain (loss) on risk management						
contracts	(0.35)	(0.73)	(52)	1.15	(1.15)	(200)
General and administrative expenses	(3.43)	(3.59)	(4)	(3.58)	(4.86)	(26)
Interest expense	(1.18)	(4.73)	(75)	(2.74)	(2.99)	(8)
Depletion, depreciation, and accretion	(22.76)	(24.47)	(7)	(25.30)	(27.10)	(7)
Stock-based compensation	(1.23)	(5.70)	(78)	(1.19)	(2.65)	(55)
Future income tax recovery (expense)	(0.68)	2.99	(123)	1.63	4.57	(64)
Gain on contingent consideration	-	25.51	(100)	-	8.19	(100)
Net earnings (loss)	(5.37)	11.23	(148)	(8.15)	(7.86)	4

Other Income	Three Months Ended December 31			Year Ended December 31		
	2010	2009	% Change	2010	2009	% Change
Other income (\$000s)	1,009	-	100	1,009	-	100
Other income (\$/boe)	4.75	-	100	1.11	-	100

Other income relates to an assignment agreement entered into by Crocotta and an unrelated party whereby Crocotta was allocated drilling credits from the unrelated party in order to maximize Crocotta's Alberta Crown royalty reduction.

Unrealized Loss on Investments	Three Months Ended December 31			Year Ended December 31		
	2010	2009	% Change	2010	2009	% Change
Unrealized loss on investments (\$000s)	88	-	100	88	-	100
Unrealized loss on investments (\$/boe)	0.41	-	100	0.10	-	100

Investments include 875,000 warrants of Hyperion Exploration Corp. ("Hyperion") at an exercise price of \$2.00 per warrant. Each warrant is convertible into one common share of Hyperion and expires on November 7, 2011. The warrants were obtained as partial consideration for the sale of certain oil and natural gas assets to Hyperion in the fourth quarter of 2010. The investment is measured at fair value each reporting period using the Black-Scholes option-pricing model. Based on Hyperion's closing trading price on December 31, 2010 of \$1.60 per share, an unrealized loss was recognized for the year on the revaluation of warrants at December 31, 2010.

General and Administrative Expenses (\$000s)	Three Months Ended December 31			Year Ended December 31		
	2010	2009	% Change	2010	2009	% Change
G&A expenses (gross)	1,265	1,381	(8)	4,873	5,504	(11)
G&A capitalized	(113)	(168)	(33)	(547)	(735)	(26)
G&A recoveries	(424)	(168)	152	(1,069)	(361)	196
G&A expenses (net)	728	1,045	(30)	3,257	4,408	(26)
G&A expenses (\$/boe)	3.43	3.59	(4)	3.58	4.86	(26)

General and administrative expenses ("G&A") decreased to \$3.43/boe for the fourth quarter of 2010 compared to \$3.59/boe for the quarter ended December 31, 2009. For the year, G&A expenses decreased 26% to \$3.58/boe in 2010 from \$4.86/boe in 2009. The decrease per boe was due to an increase in G&A recoveries combined with a decrease in employment costs. The increase in G&A recoveries was due to a significant increase in capital activity in 2010 compared to 2009 combined with an increase in operating recoveries on the assets acquired from Salvo in August 2009.

Interest (\$000s)	Three Months Ended December 31			Year Ended December 31		
	2010	2009	% Change	2010	2009	% Change
Interest expense	513	1,436	(64)	2,846	2,808	1
Interest income	(262)	(57)	360	(352)	(90)	291
Net interest expense	251	1,379	(82)	2,494	2,718	(8)
Interest expense (\$/boe)	1.18	4.73	(75)	2.74	2.99	(8)

Interest expense in 2010 relates mainly to interest incurred on amounts drawn from the Company's credit facility. Interest expense also includes interest incurred on a secured bridge facility acquired in conjunction with the acquisition of Salvo in August 2009, which was repaid in full during the first quarter of 2010. Interest income relates to interest earned on the sale of certain oil and natural gas properties during 2010. Quarter-over-quarter, net interest expense decreased as a result of the repayment of the secured bridge facility during 2010. Year-over-year, the decrease in net interest expense correlates to an increase in interest income in 2010 compared to 2009 as a result of an increase in sales of oil and natural gas properties.

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Depletion, Depreciation and Accretion	Three Months Ended December 31			Year Ended December 31		
	2010	2009	% Change	2010	2009	% Change
DD&A (\$000s)	4,831	7,128	(32)	23,024	24,599	(6)
DD&A (\$/boe)	22.76	24.47	(7)	25.30	27.10	(7)

Depletion, depreciation and accretion ("DD&A") decreased 7% to \$22.76/boe for the three months ended December 31, 2010 compared to \$24.47/boe for the three months ended December 31, 2009. For the year, DD&A decreased 7% to \$25.30/boe in 2010 from \$27.10/boe in 2009. The decrease in DD&A was due to a significant increase in proved reserves as a result of successful capital activity during 2010. The provision for DD&A for the three months and year ended December 31, 2010 includes \$0.2 million (2009 – \$0.2 million) and \$0.7 million (2009 – \$0.5 million), respectively, for accretion of asset retirement obligations.

Stock-based Compensation	Three Months Ended December 31			Year Ended December 31		
	2010	2009	% Change	2010	2009	% Change
Stock-based compensation (\$000s)	261	1,659	(84)	1,086	2,403	(55)
Stock-based compensation (\$/boe)	1.23	5.70	(78)	1.19	2.65	(55)

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. Stock-based compensation expense decreased to \$1.23/boe for the three months ended December 31, 2010 from \$5.70/boe in the comparative period. For the year, stock-based compensation decreased to \$1.19/boe in 2010 from \$2.65/boe in 2009. During 2010, the Company granted 1.2 million options (2009 – 3.0 million), 0.8 million options were forfeited (2009 – nil), 2.6 million options were cancelled (2009 – nil), and 0.1 million options were exercised (2009 – nil). The decrease in stock-based compensation was due to a decrease in the number of options issued in 2010 compared to 2009. In addition, stock-based compensation expense in 2009 included the issuance of 1.2 million warrants in conjunction with a private placement to management in October 2009 as well as the extension of the term of 2.4 million warrants that had been previously issued to officers, directors, and employees of the Company.

Gain on Contingent Consideration	Three Months Ended December 31			Year Ended December 31		
	2010	2009	% Change	2010	2009	% Change
Gain on contingent consideration (\$000s)	-	7,431	(100)	-	7,431	(100)
Gain on contingent consideration (\$/boe)	-	25.51	(100)	-	8.19	(100)

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"). At the time of the business combination, the Company agreed to pay additional consideration to the PrivateCo shareholders in the event that the oil and natural gas properties acquired from PrivateCo were sold within 12 months of closing of the business combination for an amount exceeding \$3.0 million. Upon the business combination, the Company recorded a deferred gain in the financial statements to reflect the potential liability to pay the additional consideration. The oil and natural gas properties acquired were not sold within 12 months of closing of the business combination. As a result, the Company reversed the previously recorded deferred gain and recorded an extraordinary gain in the financial statements at December 31, 2009.

Taxes

At December 31, 2010, the Company had approximately \$198.2 million in effective tax pools, losses, and share issue costs.

	December 31, 2010	December 31, 2009	% Change
(\$000s)			
Canadian oil and gas property expense (COGPE)	9,129	42,685	(79)
Canadian development expense (CDE)	67,789	44,796	51
Canadian exploration expense (CEE)	59,524	79,985	(26)
Undepreciated capital costs (UCC)	36,789	39,978	(8)
Non-capital losses carried forward	31,363	31,662	(1)
Capital losses carried forward	-	1,796	(100)
Share issue costs	474	1,603	(70)
Valuation allowance	(6,857)	(6,581)	4
Total pools, losses, and share issue costs	198,211	235,924	(16)

Funds from Operations

Funds from operations for the three months ended December 31, 2010 was \$4.3 million (\$0.07 per diluted share) compared to \$4.0 million (\$0.06 per diluted share) for the three months ended December 31, 2009. For the year, funds from operations was \$14.3 million (\$0.22 per diluted share) in 2010 compared to \$9.3 million (\$0.18 per diluted share) in 2009. The increase was a result of slightly higher oil, NGLs, and natural gas commodity prices, combined with a decrease in royalties and production expenses in 2010 compared to 2009, and realizing \$1.0 million in other income in 2010 from the allocation of drilling credits from an unrelated party.

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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		
	2010	2009	% Change	2010	2009	% Change
Funds from operations (non-GAAP)	4,258	3,972	7	14,254	9,325	53
Asset retirement expenditures	(204)	(118)	73	(868)	(163)	433
Change in non-cash working capital	(244)	(365)	33	(743)	950	(178)
Cash flow from operating activities (GAAP)	3,810	3,489	9	12,643	10,112	25

Net Earnings (Loss)

The Company had a net loss of \$1.1 million (\$0.02 per diluted share) for the three months ended December 31, 2010 compared to net earnings of \$3.3 million (\$0.05 per diluted share) for the three months ended December 31, 2009. Net earnings arose during the fourth quarter of 2009 as a result of a \$7.4 million extraordinary gain that was recorded in relation to the acquisition of PrivateCo in 2008. For the year, the Company had a net loss of \$7.4 million (\$0.11 per diluted share) in 2010 compared to a net loss of \$7.1 million (\$0.14 per diluted share) and a loss before extraordinary items of \$14.6 million (\$0.28 per diluted share) in 2009. The decrease in the net loss (excluding the extraordinary gain) was mainly a result of a decrease in expenses in 2010 compared to 2009 and realizing \$1.0 million in other income in 2010 from the allocation of drilling credits from an unrelated party.

Capital Expenditures

For the three months ended December 31, 2010, the Company had net capital dispositions of \$14.0 million compared to \$7.0 million for the three months ended December 31, 2009. For the year ended December 31, 2010, the Company had net capital dispositions of \$21.9 million compared to net capital expenditures of \$89.6 million for the year ended December 31, 2009.

(\$000s)	Three Months Ended December 31			Year Ended December 31		
	2010	2009	% Change	2010	2009	% Change
Land	1,362	394	246	2,931	1,179	149
Drilling, completions, and workovers	10,932	1,970	455	18,986	8,774	116
Equipment	1,922	(145)	1,426	5,621	2,216	154
Geological and geophysical	352	245	44	1,176	1,030	14
Other	-	-	-	-	20	(100)
Total exploration and development	14,568	2,464	491	28,714	13,219	117
Corporate acquisition	-	229	(100)	-	84,544	(100)
Property acquisitions	-	(17)	(100)	-	2,425	(100)
Property dispositions	(28,532)	(9,687)	195	(50,630)	(10,553)	380
Net property dispositions	(28,532)	(9,704)	194	(50,630)	(8,128)	523
Total capital expenditures (dispositions)	(13,964)	(7,011)	(99)	(21,916)	89,635	(124)

During the year, Crocotta drilled 10 (5.8 net) wells, which resulted in 3 (1.0 net) oil wells, 5 (2.8 net) natural gas wells, and 2 (2.0 net) uneconomic wells.

During the year, the Company sold certain oil and natural gas properties to five unrelated parties for cash proceeds of approximately \$50.6 million and warrants valued at approximately \$0.2 million at closing of the sale (see "Unrealized Loss on Investments"). Production from these assets totaled approximately 950 boe/d. The sale of these properties allowed the Company to reduce net debt to \$35.2 million at December 31, 2010 from \$70.7 million at December 31, 2009 and focus capital spending on its two core areas, Edson Bluesky and Dawson Montney.

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. Crocotta's capital program in 2010 was focused at Edson in West Central Alberta and in Northeast British Columbia targeting Montney. Capital expenditures for the year were \$28.7 million taking into account \$2.7 million of capital expenditures spent on properties sold during the year. The Company's FD&A costs for the period ended December 31, 2010 along with comparatives for the prior year and three year average are as follows, both including and excluding net acquisitions (dispositions):

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(\$000's, except where noted)	2010		2009		3 Year Average	
	Proved	Proved & Probable	Proved	Proved & Probable	Proved	Proved & Probable
Finding & Development Costs (excluding net acquisitions/dispositions)						
Exploration and Development Expenditures	26,029	26,029	13,219	13,219	98,212	98,212
Change in FDC ⁽²⁾	33,107	52,443	13,814	23,867	46,625	83,500
Finding and Development Costs excluding Net Acquisitions/Dispositions						
- Including FDC	59,136	78,472	27,033	37,086	144,837	181,712
All-in Finding and Development Costs (including net acquisitions/dispositions)						
Exploration and Development Expenditures	26,029	26,029	13,219	13,219	98,212	98,212
Net Acquisitions (Dispositions) (including related capital)	(47,945)	(47,945)	76,416	76,416	39,467	39,467
Exploration and Development Expenditures including net acquisitions (dispositions)						
	(21,916)	(21,916)	89,635	89,635	137,679	137,679
Change in FDC	33,107	52,443	13,814	23,867	46,625	83,500
All-in Finding and Development Costs - Including FDC	11,191	30,527	103,449	113,502	184,304	221,179
Reserve Additions (Mboe)						
Exploration and Development	4,482	7,074	236	265	5,853	9,157
Net Acquisitions/Dispositions	(2,386)	(3,271)	4,700	6,700	2,616	4,051
Total Reserve Additions	2,096	3,803	4,936	6,965	8,470	13,208
Finding and Development Costs excluding net acquisitions /dispositions (\$/boe)						
Excluding FDC	5.81	3.68	56.01	49.88	16.78	10.73
Including FDC	13.19	11.09	114.55	139.95	24.74	19.84
All-in Finding and Development Costs (\$/boe)						
Excluding FDC	(10.46)	(5.76)	18.16	12.87	16.26	10.42
Including FDC	5.34	8.03	20.96	16.30	21.76	16.75

(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) Future development capital ("FDC") 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 \$35.2 million at December 31, 2010 compared to net debt of \$70.7 million at December 31, 2009. The decrease of \$35.5 million was mainly due to \$50.6 million in property dispositions and funds from operations of \$14.3 million, which were offset by \$28.7 million used for the purchase and development of oil and natural gas properties and equipment and \$0.9 million for asset retirement expenditures.

At December 31, 2010, the Company had total credit facilities of \$55.0 million, consisting of a \$55.0 million revolving operating demand loan credit facility with a Canadian chartered bank. The demand loan credit facility bears interest at prime plus a range of 0.75% to 2.50% and is secured by a \$235 million fixed and floating charge debenture on the assets of the Company. At December 31, 2010, \$35.4 million (December 31, 2009 – \$52.4 million) had been drawn on the demand loan credit facility. The next review of the demand loan credit facility by the bank is scheduled on or before March 31, 2011.

During the year, the Company sold certain oil and natural gas properties to five unrelated parties for cash proceeds of approximately \$50.6 million and warrants valued at approximately \$0.2 million at closing of the sale (see "Unrealized Loss on Investments"). Production from these assets totaled approximately 950 boe/d. Proceeds from the dispositions were used to retire the remaining balance on the secured bridge facility and reduce net debt. The secured bridge facility was acquired in conjunction with the acquisition of Salvo in 2009.

Subsequent to December 31, 2010, the Company issued, by way of private placement, approximately 15.6 million common shares at a price of \$2.30 per share for gross proceeds of approximately \$36.0 million. The proceeds will be used to fund Crocotta's Edson Bluesky and Dawson Montney developments, other capital projects, and for general corporate purposes.

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The ongoing global economic conditions have continued to impact the liquidity in financial and capital markets, restrict access to financing, and cause significant volatility in commodity prices. Downward trends in commodity prices have resulted in the Company experiencing reduced operating netbacks and funds from operations. Although commodity prices remained consistent in 2010 compared to 2009, continued pressure on commodity prices would result in the Company experiencing reduced operating netbacks and funds from operations in future periods. The Company partially mitigated this risk through commodity price hedges on its 2010 production in the form of monthly settled puts (floors). The sale of non-core properties during the latter half of 2009 and throughout 2010, the repayment of the secured bridge facility during the first quarter of 2010, the availability of the undrawn portion of the Company's \$55.0 million revolving operating demand loan credit facility, and the \$36.0 million financing subsequent to December 31, 2010 has allowed the Company to strengthen its financial position on a go forward basis and focus capital spending on its two core areas. Crocotta's capital program is flexible and can be adjusted as needed based upon the economic environment. Crocotta has implemented adequate strategies to protect its business as much as possible in the current economic environment, including strategies to balance funds from operations, available credit limits, and capital spending. However, Crocotta is still exposed to the risks associated with the current economic situation. The Company will continue to monitor the possible impact on its business and strategy and will make adjustments as necessary.

Contractual Obligations

The following is a summary of the Company's contractual obligations and commitments at December 31, 2010:

(\$000s)	Total	Less than 1 year	1 – 3 years	After 3 years
Accounts payable and accrued liabilities	10,930	10,930	-	-
Revolving credit facility	35,386	35,386	-	-
Office leases	842	661	181	-
Field equipment leases	1,537	686	851	-
Firm transportation agreements	1,283	491	635	157
Capital processing agreements	400	-	-	400
Total contractual obligations	50,378	48,154	1,667	557

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, 2010	March 21, 2011
Voting common shares	65,142	80,874
Options	3,877	6,286
Warrants	3,521	3,521
Total	72,540	90,681

Summary of Quarterly Results

	Q4 2010	Q3 2010	Q2 2010	Q1 2010	Q4 2009	Q3 2009	Q2 2009	Q1 2009
Number of producing days	92	92	91	90	92	92	91	90
Daily production								
Oil and NGLs (bbls/d)	647	862	665	810	1,140	1,000	722	781
Natural gas (mcf/d)	9,958	10,530	10,698	10,763	12,157	10,005	7,706	7,878
Oil equivalent (boe/d @ 6:1)	2,307	2,617	2,448	2,604	3,166	2,668	2,006	2,094
(\$000s, except per share amounts)								
Oil and natural gas sales	7,274	8,574	7,720	10,962	12,130	8,649	6,358	7,062
Funds from operations	4,258	3,279	2,597	4,120	3,972	1,752	1,884	1,717
per share - basic and diluted	0.07	0.05	0.04	0.06	0.06	0.03	0.04	0.04
Net loss before extraordinary items	(1,140)	(2,477)	(2,935)	(862)	(4,155)	(3,919)	(3,193)	(3,305)
per share - basic and diluted	(0.02)	(0.04)	(0.05)	(0.01)	(0.06)	(0.06)	(0.07)	(0.08)
Net earnings (loss)	(1,140)	(2,477)	(2,935)	(862)	3,276	(3,919)	(3,193)	(3,305)
per share - basic and diluted	(0.02)	(0.04)	(0.05)	(0.01)	0.05	(0.06)	(0.07)	(0.08)

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Oil and natural gas sales in Q4 2010 decreased from Q3 due to a drop in production stemming from the sale of certain oil and natural gas assets during Q4 2010. In Q4 2010, funds from operations increased and net loss decreased over prior quarters as a result of other income from the allocation of drilling credits from an unrelated party and a reduction in overall expenses during the quarter. Overall, results from the previous quarters were consistent from period to period, with fluctuations mainly the result of changes in production levels and commodity prices.

Outlook

The information below represents Crocotta's guidance for 2011 based on management's best estimates and the assumptions noted below.

Estimated Average Daily Production	Guidance 2011
Oil and NGLs (bbls/d)	1,235
Natural gas (mcf/d)	13,000
Total (boe/d)	3,400

Estimated Financial Results	Guidance 2011
Oil and natural gas sales (\$000s)	53,700
Funds from operations (\$000s)	25,100
\$ per share - basic ⁽¹⁾	0.31
\$ per share - diluted ⁽²⁾	0.28
Capital expenditures (\$000s)	50,100
West Texas Intermediate (\$US/bbl)	81.01
AECO Daily Spot Price (\$Cdn/mcf)	3.98
U.S./Cdn Dollar Average Exchange Rate	0.96

(1) Based on 80.9 million common shares outstanding at March 21, 2011

(2) Based on 80.9 million common shares, 6.3 million options, and 3.5 million warrants outstanding at March 21, 2011

Sensitivity Analysis

The outlook is based on estimates of key external market factors. Crocotta's actual results will be affected by fluctuations in commodity prices as well as the U.S./Canadian dollar exchange rate. The following table provides a summary of estimates for 2011 of the sensitivity of Crocotta's funds from operations to changes in commodity prices and the U.S./Canadian dollar exchange rate.

	Guidance 2011	Variance in Factor	Variance in Funds from Operations (\$)
West Texas Intermediate (\$US/bbl)	81.01	1.00	330,000
AECO Daily Spot Price (\$Cdn/mcf)	3.98	0.10	445,000
U.S./Cdn Dollar Average Exchange Rate (\$)	0.96	0.01	286,000

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. 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. 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 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.

International Financial Reporting Standards ("IFRS")

On January 1, 2011 IFRS will become the generally accepted accounting principles in Canada for publicly accountable enterprises. Crocotta will be required to apply IFRS, in full and without modification, for all financial periods beginning January 1, 2011. The adoption date of January 1, 2011 will require the restatement, for comparative purposes, of amounts reported by Crocotta for the year ended December 31, 2010, including the opening balance sheet as at January 1, 2010.

Since its inception, the project has been managed in-house by the financial reporting group. The Company's auditors have been and will continue to be involved throughout the process to ensure the Company's policies are in accordance with these new standards. Crocotta has effectively completed all phases of its IFRS transition project and continues to review its draft IFRS financial statements and disclosures for completeness and quality assurance.

First Time Adoption of IFRS

Most adjustments required on transition to IFRS will be made retrospectively against opening retained earnings as of the date of the first comparative balance sheet presented, based on standards applicable at that time. IFRS 1 provides entities adopting IFRS for the first time with certain optional exemptions and mandatory exceptions to the general requirement for full retrospective application of IFRS. Management has analyzed the various accounting policy choices available under IFRS 1 and has implemented those determined to be the most appropriate for Crocotta. Accordingly, it has applied the following IFRS 1 exemptions in its IFRS opening balance sheet:

- Property, Plant and Equipment ("PP&E") – IFRS 1 provides an option to entities such as Crocotta who follow the full cost accounting guideline under Canadian GAAP to value their oil and gas PP&E on the date of transition to IFRS at its deemed cost, defined as the carrying value assigned to these assets under Canadian GAAP at the date of transition, January 1, 2010. Under IFRS, Crocotta's PP&E must be divided into multiple cash generating units ("CGU"), which is unlike full cost accounting where all oil and gas assets are accumulated into one cost centre. The deemed cost of Crocotta's oil and gas PP&E has been allocated to 10 CGUs based on Crocotta's proved plus probable reserve values at January 1, 2010. These CGUs are aligned with the major geographic regions in which Crocotta operates and could change in the future as a result of significant acquisition or disposition activity.
- Business Combinations – IFRS 1 provides an optional exemption to the requirement to retrospectively restate any business combinations that have previously been recorded under Canadian GAAP. Accordingly, Crocotta will not be recording any adjustments to retrospectively restate any of its business combinations that have occurred prior to January 1, 2010.
- Stock-based compensation – IFRS 1 provides an optional exemption to the requirement from IFRS 2, *Share-Based Payments*, to retrospectively restate as of the date of transition amounts recorded in respect of equity instruments not yet vested.

The following is a listing of key areas where accounting policies differ and where accounting policy decisions are necessary that will impact Crocotta's reported financial position and results of operations:

- Re-classification of Exploration and Evaluation ("E&E") expenditures from PP&E – Upon transition to IFRS, Crocotta will reclassify all E&E expenditures that are currently recognized as PP&E on the Balance Sheet. This consists of the carrying value of certain undeveloped land that relates to exploration properties. E&E assets will not be amortized and must be assessed for impairment when indicators suggest the possibility of impairment as well as upon transfer to PP&E. Management has identified approximately \$36.4 million of its property, plant and equipment that meets the criteria to be classified as E&E in the opening balance sheet prepared under IFRS as at January 1, 2010.
- Calculation of depletion expense for PP&E assets – Upon transition to IFRS, Crocotta has the option to calculate depletion using a reserve base of proved reserves or both proved plus probable reserves, as compared to the Canadian GAAP method of calculating depletion using proved reserves only. Crocotta plans to determine its depletion expense using proved plus probable reserves as its depletion base. Accordingly, Crocotta expects that its depletion expense for the year ended December 31, 2010 would be reduced as compared to its current calculation under Canadian GAAP.
- Impairment of PP&E assets – Canadian GAAP generally uses a two-step approach to impairment testing; first comparing asset carrying values with undiscounted future cash flows to determine whether an impairment exists, and then measuring impairment by comparing asset carrying values to their fair value (which is calculated using discounted cash flows). Under Canadian GAAP, Crocotta includes all assets in one impairment test.

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IFRS uses a one-step approach for testing and measuring impairment, with asset carrying values compared directly with the higher of fair value less costs to sell and value in use. Under IFRS, impairment of PP&E must be calculated at a more granular level than what is currently required under Canadian GAAP resulting in impairment testing being done at the CGU level.

These differences may potentially result in impairment charges where the carrying value of assets were previously supported under Canadian GAAP by consolidated undiscounted cash flows, but could not be supported by cash flows determined on a more granular discounted basis.

At January 1, 2010 impairment tests were performed in accordance with IFRS and impairment of approximately \$35.8 million was identified. Of the \$35.8 million impairment, \$11.2 million related to assets held for sale at January 1, 2010 and sold in Q1 2010 and \$11.4 million related to assets sold in Q4 2010. After the dispositions, the Company's CGUs were reduced to seven from 10.

- Assets held for sale – Under IFRS, assets held for sale are presented separately from PP&E as current assets and are not depreciated. At January 1, 2010, Crocotta had assets held for sale of \$21.9 million, which were reclassified from non-current assets to current assets in the IFRS opening balance sheet (see below).
- Asset retirement obligation – Under IFRS, Crocotta is required to revalue its entire liability for asset retirement costs at each balance sheet date using a current liability-specific discount rate, which can generally be interpreted to mean the current risk-free rate of interest. Under Canadian GAAP, obligations are discounted using a credit-adjusted risk-free rate and, once recorded, the asset retirement obligation is not adjusted for future changes in discount rates. At January 1, 2010 Crocotta's asset retirement obligations will increase by approximately \$3.6 million to \$13.7 million as the liability is revalued to reflect the estimated risk free rate of interest at that time of 4.08%. The increase will be charged to opening retained earnings.
- Stock-based compensation – IFRS requires that the fair value of equity instruments incorporate an estimated forfeiture rate and that each vesting installment be treated as a separate award (graded vesting). IFRS 1 also permits retrospective restatement for only those equity instruments not yet vested as of January 1, 2010. Under Canadian GAAP, Crocotta applied straight-line vesting and did not incorporate an estimated forfeiture rate, but instead accounted for forfeitures as a change in estimate in the period in which they occurred. At January 1, 2010, Crocotta's contributed surplus will increase by approximately \$0.8 million to \$4.5 million as equity instruments are revalued to reflect the incorporation of an estimated forfeiture rate and graded vesting.

The following table summarizes Crocotta's January 1, 2010 balance sheet under Canadian GAAP and the transitional entries required to present the opening balance sheet under IFRS. Crocotta has not yet prepared a full set of annual financial statements under IFRS, therefore, amounts are unaudited.

\$000s	Canadian GAAP	IFRS Adjustments	IFRS
Current assets	8,339	21,880	30,219
Non-current assets	245,817	(57,976)	187,841
Total assets	254,156	(36,096)	218,060
Current liabilities	80,037	1,835	81,872
Non-current liabilities	10,084	3,614	13,698
Equity	164,035	(41,545)	122,490
Total liabilities and equity	254,156	(36,096)	218,060

In addition to accounting policy differences, Crocotta's transition to IFRS is expected to impact its internal controls over financial reporting, disclosure controls and procedures, certain of Crocotta's business activities and IT systems as follows:

- Internal controls over financial reporting ("ICFR") – Crocotta is currently in the process of reviewing its ICFR documentation and is identifying instances where controls must be amended or added in order to address the accounting policy changes required under IFRS. No material changes in control procedures are expected as a result of transition to IFRS.
- Disclosure controls and procedures – Crocotta has assessed the impact of transition to IFRS on its disclosure controls and procedures and has not identified any material changes required in its control environment. It is expected that there will be increased note disclosure around certain financial statement items than what is currently required under Canadian GAAP. Management is currently drafting its IFRS note disclosure in accordance with current IFRS standards. Throughout the transition process, Crocotta has carefully considered its stakeholders' information requirements and will continue to ensure that adequate and timely information is provided to meet these needs.
- Business activities – Management has been cognizant of the upcoming transition to IFRS, and as such, has worked with its counterparties and lenders to ensure that any agreements that contain references to Canadian GAAP financial statements are modified to allow for IFRS statements. Based on the changes to Crocotta's accounting policies, no issues are expected to arise with the existing wording of debt covenants and related agreements as a result of the conversion to IFRS.
- IT systems – Crocotta has assessed the readiness of its accounting software and has and continues to assess other system requirements that may be needed in order to perform ongoing calculations and analysis under IFRS. These changes are not considered to be significant.

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.

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.

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.

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. The Company currently does not have any foreign exchange contracts in place.

Interest rate risk

The Company is exposed to interest rate risk as it borrows funds at floating interest rates. In addition, the Company may at times issue shares on a flow-through basis. This results in the Company being 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.

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. From time to time the Company may attempt to mitigate commodity price risk through the use of financial derivatives. During 2010, the Company entered into commodity price hedges in the form of monthly settled puts (futures), as previously outlined.

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.

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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, 2010. 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 controls 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 controls over financial reporting as of December 31, 2010. 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. Based on their evaluation, the Company's CEO and CFO have identified weaknesses over segregation of duties. Specifically, due to the limited number of finance and accounting personnel at the Company, it is not feasible to achieve complete segregation of duties with regards to certain complex and non-routine accounting transactions that may arise. This weakness is considered to be a common deficiency for many smaller listed companies in Canada. Notwithstanding the weaknesses identified with regards to segregation of duties, the Company concluded that all other of its internal controls over financial reporting were effective as of December 31, 2010. 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. As a result of the weaknesses identified in the Company's internal controls over financial reporting, there is a greater likelihood that a material misstatement would not be prevented or detected. To mitigate the risk of such material misstatement in financial reporting, the CEO and CFO oversee all material and complex transactions of the Company and the financial statements are reviewed and approved by the board of directors each quarter. In addition, the Company will seek the advice of external parties, such as the Company's external auditors, in regards to the appropriate accounting treatment for any complex and non-routine transactions that may arise.

Crocotta Energy Inc.
Balance Sheets

As at December 31,	2010	2009
(\$000s)		
Assets		
Current assets:		
Cash and cash equivalents	-	1,854
Accounts receivable	10,159	5,042
Prepaid expenses and deposits	878	1,443
Investments (note 10(a))	79	-
	11,116	8,339
Oil and natural gas properties and equipment (note 4)	201,018	245,562
Future income tax asset (note 7)	1,682	255
	213,816	254,156
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	10,930	6,397
Revolving credit facility (note 5)	35,386	52,355
Secured bridge facility (note 5)	-	20,243
Risk management contracts (note 10(b))	-	1,042
	46,316	80,037
Asset retirement obligations (note 6)	9,533	10,084
Shareholders' equity:		
Capital stock (note 8)	166,758	166,632
Contributed surplus (note 8(c))	4,934	3,714
Deficit	(13,725)	(6,311)
	157,967	164,035
Subsequent events (notes 8(e) and 13)	213,816	254,156

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 Loss, and Retained Earnings (Deficit)**

Year Ended December 31,	2010	2009
(\$000s, except per share amounts)		
Revenue:		
Oil and natural gas sales	34,530	34,199
Royalties	(5,397)	(7,024)
Other income	1,009	-
Realized loss on risk management contracts (note 10(b))	(628)	(209)
Unrealized gain (loss) on risk management contracts (note 10(b))	1,042	(1,042)
	30,556	25,924
Expenses:		
Production	8,483	9,413
Transportation	1,026	1,102
General and administrative	3,257	4,408
Interest	2,494	2,718
Depletion, depreciation and accretion	23,024	24,599
Stock-based compensation	1,086	2,403
Unrealized loss on investments (note 10(a))	88	-
	39,458	44,643
Loss before income taxes	(8,902)	(18,719)
Income Taxes:		
Future income tax recovery	1,488	4,147
Loss before extraordinary item	(7,414)	(14,572)
Extraordinary Item:		
Gain on contingent consideration (note 2(b))	-	7,431
	-	7,431
Net loss and comprehensive loss	(7,414)	(7,141)
Retained earnings (deficit), beginning of year	(6,311)	830
Deficit, end of year	(13,725)	(6,311)
Loss per share before extraordinary items:		
Basic and diluted	(0.11)	(0.28)
Net loss per share:		
Basic and diluted	(0.11)	(0.14)

See accompanying notes to the financial statements

Crocotta Energy Inc.
Statements of Cash Flows

Year Ended December 31,	2010	2009
(\$000s)		
Cash provided by (used in):		
Operating:		
Loss before extraordinary item	(7,414)	(14,572)
Items not affecting cash:		
Depletion, depreciation and accretion	23,024	24,599
Stock-based compensation	1,086	2,403
Unrealized loss on investments (note 10(a))	88	-
Unrealized loss (gain) on risk management contracts (note 10(b))	(1,042)	1,042
Future income tax recovery	(1,488)	(4,147)
	14,254	9,325
Asset retirement expenditures	(868)	(163)
Net change in non-cash working capital	(743)	950
	12,643	10,112
Financing:		
Revolving credit facility	(16,969)	36,705
Secured bridge facility	(20,243)	(4,757)
Issuance of capital stock	75	1,260
Share issue costs	-	(34)
Capital lease payments	-	(432)
	(37,137)	32,742
Investing:		
Purchase and development of oil and natural gas properties and equipment	(28,714)	(15,644)
Disposition of oil and natural gas properties and equipment (note 3)	50,630	10,553
Business combinations	-	(30,192)
Net change in non-cash investing working capital	724	(5,717)
	22,640	(41,000)
Change in cash and cash equivalents	(1,854)	1,854
Cash and cash equivalents, beginning of year	1,854	-
Cash and cash equivalents, end of year	-	1,854

See accompanying notes to the financial statements

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. The Company trades on the Toronto Stock Exchange under the symbol "CTA".

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

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 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) 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.

e) 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.

(Tabular amounts in 000s, unless otherwise stated)

f) Stock-based compensation

The Company has a stock-based compensation plan, which is described in note 8(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. The Company does not incorporate an estimated forfeiture rate for stock options that will not vest, but instead accounts for forfeitures as a change in estimate in the period in which they occur. In the event that vested stock options expire without being exercised, previously recognized compensation costs associated with such stock options are not reversed.

g) Revenue recognition

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

h) 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.

i) 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.

j) 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.

k) Financial instruments

Financial assets, financial liabilities and non-financial derivatives are measured at fair value on initial recognition. Measurement 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. 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 other comprehensive income ("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.

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. Investments are designated as "held-for-trading" and are measured at fair value. Accounts receivable and deposits are designated as "loans and receivables" and accounts payable, accrued liabilities, and credit facilities are designated as "other financial liabilities".

Risk management assets and liabilities are derivative financial instruments classified as "held-for-trading" unless designated for hedge accounting. Derivative financial instruments that do not qualify as hedges, or are not designated as hedges, are recorded using the mark-to-market method of accounting whereby instruments are recorded in the balance sheet as either an asset or liability with changes in fair value recognized in net earnings. Derivative financial instruments are used by the Company to manage economic exposure to market risks relating to commodity prices. Crocotta's policy is not to utilize derivative financial instruments for speculative purposes.

l) Use of estimates

The amounts recorded for depletion and depreciation, asset retirement obligations, stock-based compensation, purchase accounting for acquisitions, held-for-trading derivative financial instruments, 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.

Crocotta Energy Inc.
Notes to the Financial Statements
Year Ended December 31, 2010

(Tabular amounts in 000s, unless otherwise stated)

2. ACQUISITIONS

a) Salvo Energy Corporation

On August 13, 2009, the Company closed a business combination (the "Acquisition") whereby it acquired all of the issued and outstanding shares of Salvo Energy Corporation ("Salvo"). Prior to the Acquisition, Salvo acquired certain oil and natural gas assets from an Alberta-based company on July 31, 2009 (the "Asset Acquisition"). Consideration for the Asset Acquisition was cash of approximately \$37.8 million which was financed through a secured bridge loan facility to Salvo and an increase to Crocotta's revolving operating demand loan credit facility. Salvo obtained a \$25.0 million secured bridge facility (note 5), proceeds from which were used to repay Salvo's existing credit facility and to partially fund the Asset Acquisition. Crocotta obtained an increase in its revolving operating demand loan credit facility (note 5) and advanced Salvo \$29.8 million (prior to the close of the Acquisition) to facilitate the close of the Asset Acquisition.

The following table details the purchase price allocation for the Acquisition:

Net assets acquired	Amount
Oil and natural gas properties and equipment	84,544
Working capital, including cash of \$0.1 million	286
Due to Crocotta	(29,750)
Bridge facility	(25,000)
Asset retirement obligation	(6,531)
Future income tax asset	78
	23,627
Consideration of acquisition	
Issuance of 19,898,760 common shares (note 8(b))	23,083
Transaction costs	544
	23,627

The results of operations include net revenue from this transaction effective August 13, 2009.

b) 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"). 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 were 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 were to 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 recorded a deferred gain in the financial statements as at December 31, 2008 to reflect the potential liability to pay the additional consideration. The oil and natural gas properties acquired were not sold within 12 months of closing of the business combination. As a result, the Company removed the previously recorded deferred gain from the balance sheet and recorded an extraordinary gain to earnings in the year ended December 31, 2009.

3. PROPERTY DISPOSITIONS

2010

During the year ended December 31, 2010, the Company sold certain oil and natural gas properties to five unrelated parties for cash proceeds of approximately \$50.6 million and warrants valued at approximately \$0.2 million (note 10(a)). The following table details the allocation of the proceeds on disposition:

Net assets disposed	Amount
Oil and natural gas properties	52,045
Asset retirement obligation	(1,239)
	50,806

Crocotta Energy Inc.
Notes to the Financial Statements
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(Tabular amounts in 000s, unless otherwise stated)

2009

During the year ended December 31, 2009, the Company sold certain oil and natural gas properties to nine unrelated parties for cash proceeds of approximately \$10.6 million. The following table details the allocation of the proceeds on disposition:

Net assets disposed	Amount
Oil and natural gas properties	11,699
Asset retirement obligation	(1,146)
	<u>10,553</u>

4. OIL AND NATURAL GAS PROPERTIES AND EQUIPMENT

	2010	2009
Oil and natural gas properties	279,882	302,070
Office and other equipment	347	347
	<u>280,229</u>	<u>302,417</u>
Accumulated depletion and depreciation	(79,211)	(56,855)
Net book value	<u>201,018</u>	<u>245,562</u>

At December 31, 2010, the cost of oil and natural gas properties includes approximately \$29.5 million (December 31, 2009 – \$36.4 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, 2010, the provision for depletion, depreciation and accretion includes \$0.7 million (2009 – \$0.5 million) for accretion of asset retirement obligations. During the year ended December 31, 2010, the Company capitalized \$0.5 million (2009 – \$0.7 million) of general and administrative costs and \$0.2 million (2009 – \$0.3 million) of stock-based compensation.

The Company performed an impairment test calculation at December 31, 2010 to assess the recoverable value of the oil and natural gas properties. The oil and natural gas future prices are based on January 1, 2011 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, 2010.

Year	WTI Oil (\$US/bbl)	Foreign Exchange Rate	Edmonton Light Crude Oil (\$Cdn/bbl)	AECO Gas (\$Cdn/mmbtu)
2011	88.00	0.980	86.22	4.16
2012	89.00	0.980	89.29	4.74
2013	90.00	0.980	90.92	5.31
2014	92.00	0.980	92.96	5.77
2015	95.17	0.980	96.19	6.22
2016	97.55	0.980	98.62	6.53
2017	100.26	0.980	101.39	6.76
2018	102.74	0.980	103.92	6.90
2019	105.45	0.980	106.68	7.06
2020	107.56	0.980	108.84	7.21
Escalate Thereafter	2.0% per year		2.0% per year	2.0% per year

5. CREDIT FACILITIES

At December 31, 2010, the Company had total credit facilities of \$55.0 million, consisting of a \$55.0 million revolving operating demand loan credit facility with a Canadian chartered bank. The demand loan credit facility bears interest at prime plus a range of 0.75% to 2.50% and is secured by a \$235 million fixed and floating charge debenture on the assets of the Company. At December 31, 2010, \$35.4 million (December 31, 2009 – \$52.4 million) had been drawn on the demand loan credit facility. The next review of the demand loan credit facility by the bank is scheduled on or before March 31, 2011.

During the first quarter of 2010, the Company sold certain non-core oil and natural gas properties for approximately \$19.5 million (note 3). The majority of the proceeds were used to retire the remaining balance on the secured bridge facility during the first quarter of 2010. The secured bridge facility was acquired in conjunction with the acquisition of Salvo in August 2009 (note 2(a)).

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(Tabular amounts in 000s, unless otherwise stated)

6. 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 \$27.0 million which is estimated to be incurred between 2011 and 2041. A credit-adjusted risk-free rate of 7% was used to calculate the fair value of the asset retirement obligations. A reconciliation of the asset retirement obligations is provided below:

	2010	2009
Balance, beginning of period	10,084	4,158
Liabilities acquired upon business combination (note 2)	-	6,531
Liabilities incurred in period	175	135
Liabilities disposed through property dispositions (note 3)	(1,239)	(1,146)
Liabilities settled in period	(868)	(163)
Accretion expense	667	468
Revisions to estimate	714	101
Balance, end of period	9,533	10,084

7. TAXES

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

	2010	2009
Income tax rate	28.0%	29.0%
Expected income tax recovery	(2,493)	(5,428)
Increase (decrease) in income taxes resulting from:		
Stock-based compensation and other non-deductible amounts	304	699
Rate reduction and other	450	582
Valuation allowance	251	-
	(1,488)	(4,147)

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

	2010	2009
Future income tax assets (liabilities):		
Oil and natural gas properties and equipment	(7,406)	(9,606)
Asset retirement obligations	2,383	2,521
Risk management contracts	-	261
Share issue costs	119	401
Non-capital losses	8,300	7,916
Capital losses	-	225
Valuation allowance	(1,714)	(1,463)
Net future income tax asset	1,682	255

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The Company has accumulated non-capital losses for income tax purposes of approximately \$31.4 million (2009 – \$31.1 million), which can be used to offset income in future periods. These losses expire as follows:

Year of expiry	Amount
2028	7,001
2027	4,490
2026	4,664
2025	8,066
2024	2,209
2023	4,772
2013	161
	31,363

8. 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

	Number	Amount
Voting common shares		
Balance at December 31, 2008	43,985	144,593
Issued upon acquisition of Salvo (note 2)	19,899	23,083
Private placement	1,200	1,260
Share issue costs, net of future tax effect	-	(26)
Future tax effect of flow-through share renunciation	-	(2,278)
Balance at December 31, 2009	65,084	166,632
Exercise of stock options	58	126
Balance at December 31, 2010	65,142	166,758

c) Contributed surplus

	Year Ended December 31, 2010	Year Ended December 31, 2009
Balance, beginning of year	3,714	1,002
Stock-based compensation - expensed	1,086	2,403
Stock-based compensation - capitalized	185	309
Exercise of stock options	(51)	-
Balance, end of year	4,934	3,714

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 under this arrangement 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 under this arrangement. The fair value of the warrants granted under this arrangement 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. During 2009, approval was obtained to extend the expiry date of the warrants to December 23, 2012.

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	Number of Warrants	Weighted Average Price (\$)
Balance at December 31, 2008 and 2009	2,404	4.80
Forfeited	(83)	4.75
Balance at December 31, 2010	2,321	4.80
Exercisable at December 31, 2010	2,321	4.80

On October 29, 2009, the Company issued an additional 1.2 million warrants at an exercise price of \$1.40 per share in conjunction with a private placement share issuance. The warrants vested immediately and have an expiry date of October 29, 2012. The fair value of the warrants granted under this arrangement was determined using the Black-Scholes option-pricing model (note 8(f)).

	Number of Warrants	Weighted Average Price (\$)
Balance at December 31, 2008	-	-
Granted	1,200	1.40
Balance at December 31, 2009 and 2010	1,200	1.40
Exercisable at December 31, 2010	1,200	1.40

e) Stock options

The Company has authorized and reserved for issuance 6.5 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, 2010, 3.9 million options have been granted and are outstanding at exercise prices ranging from \$1.10 to \$2.10 per share with expiry dates ranging from November 9, 2013 to November 4, 2015.

	Number of Options	Weighted Average Price (\$)
Balance at December 31, 2008	3,045	3.00
Granted	3,027	1.16
Balance at December 31, 2009	6,072	2.08
Granted	1,235	1.48
Exercised	(58)	1.31
Forfeited	(773)	2.19
Cancelled	(2,599)	3.01
Balance at December 31, 2010	3,877	1.26
Exercisable at December 31, 2010	971	1.22

Subsequent to December 31, 2010, the Company issued 2.5 million options at an exercise price of \$2.37 per share.

f) Stock-based compensation

Stock Options

The compensation cost charged to earnings during the year ended December 31, 2010 for the stock option plan was \$1.1 million (2009 - \$1.1 million).

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The Company granted 1.2 million options during the year ended December 31, 2010 (2009 – 3.0 million). The fair value of each option granted during the year ended December 31, 2010 was determined using the Black-Scholes option-pricing model with the following weighted average assumptions:

	Year Ended December 31, 2010	Year Ended December 31, 2009
Fair value per option	\$0.94	\$0.80
Risk-free rate	1.9%	2.0%
Expected life	4.0 years	4.0 years
Expected volatility	88.1%	99.3%
Dividend yield	-	-

Warrants

There were no warrants issued during 2010. The compensation cost charged to earnings during the year ended December 31, 2009 for warrants issued was \$1.3 million.

During 2009, the Company extended the term of 2.4 million warrants issued in 2007 and issued 1.2 million warrants (note 8(d)). The fair value of the each warrant extended and each warrant granted during the year ended December 31, 2009 was determined using the Black-Scholes option-pricing model with the following weighted average assumptions:

	Year Ended December 31, 2009
Fair value per warrant	\$0.39
Risk-free rate	1.6%
Expected life	3.5 years
Expected volatility	102.6%
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, 2010	Year Ended December 31, 2009
Basic	65,129	51,883
Diluted	65,412	51,883

9. 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 and secured bridge facility and excluding the risk management contracts, 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, 2010	December 31, 2009
Shareholders' equity	157,967	164,035
Net debt	35,200	70,656

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 Company's share capital is not subject to external restrictions; however, the Company's revolving 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, 2010.

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

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10. 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, investments, accounts payable and accrued liabilities, risk management contracts, and amounts drawn on the revolving credit facility (note 5). The fair values of the Company's financial assets and financial liabilities, excluding investments, approximate their carrying amount due to the short-term maturity of these instruments. The Company is required to classify fair value measurements using a hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy is as follows:

- Level 1 – quoted prices in active markets for identical assets or liabilities;
- Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 – inputs for the asset or liability that are not based on observable market data

The fair value of investments is considered to be level 2. Investments include 875,000 warrants of Hyperion Exploration Corp. ("Hyperion") at an exercise price of \$2.00 per warrant. Each warrant is convertible into one common share of Hyperion and expires on November 7, 2011. The warrants were obtained as partial consideration for the sale of certain oil and natural gas assets to Hyperion in the fourth quarter of 2010 (note 3). The investment has been classified as held for trading and is measured at fair value each reporting period using the Black-Scholes option-pricing model. Based on Hyperion's closing trading price on December 31, 2010 of \$1.60 per share, an unrealized loss was recognized for the year on the revaluation of warrants at December 31, 2010. The fair value of each warrant was determined using the Black-Scholes option-pricing model with the following assumptions:

	November 8, 2010	December 31, 2010
Fair value per warrant	\$0.19	\$0.09
Risk-free rate	1.5%	1.7%
Expected life	1.0 year	0.9 years
Expected volatility	35.0%	35.0%
Dividend yield	-	-

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.

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 \$0.2 million for the year ended December 31, 2010 (2009 - \$0.2 million).

Interest rate risk

The Company is exposed to interest rate risk as it borrows funds at floating interest rates (note 5). In addition, the Company may at times issue shares on a flow-through basis. This results in the Company being 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 \$0.4 million for the year ended December 31, 2010 (2009 - \$0.4 million).

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. From time to time the Company may attempt to mitigate commodity price risk through the use of financial derivatives.

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At December 31, 2010, the Company did not have any risk management contracts outstanding. During 2010, the Company had the following risk management contracts:

Product	Period	Production	Floor Price
Oil	January 2010 – December 2010	1,000 bbls/d	WTI CDN \$50.00/bbl
Gas	January 2010 – December 2010	10.0 mmcf/d	AECO CDN \$4.00/mcf

For the year ended December 31, 2010, the realized loss on the risk management contracts was \$0.6 million (2009 - \$0.2 million realized gain) and the unrealized gain on the risk management contracts was \$1.0 million (2009 - \$1.0 million unrealized loss).

A \$1.00/boe increase or decrease in commodity prices would have impacted net earnings and other comprehensive income by approximately \$0.6 million for the year ended December 31, 2010 (2009 - \$0.5 million).

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, 2010, 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, 2010:

Financial Liability	Less than 1 Year	1 to less than 2 Years	Thereafter	Total
Accounts payable and accrued liabilities	10,930	-	-	10,930
Revolving credit facility	35,386	-	-	35,386
	46,316	-	-	46,316

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11. SUPPLEMENTAL CASH FLOW INFORMATION

a) Net change in non-cash working capital

	Year Ended December 31, 2010	Year Ended December 31, 2009
Accounts receivable	(5,117)	940
Prepaid expenses and deposits	565	9
Accounts payable and accrued liabilities	4,533	(5,899)
Non-cash working capital deficiency acquired on Acquisitions (note 2)		183
Net change in non-cash working capital	(19)	(4,767)
Relating to:		
Investing	724	(5,717)
Operating	(743)	950
Net change in non-cash working capital	(19)	(4,767)

b) Interest and taxes

	Year Ended December 31, 2010	Year Ended December 31, 2009
Cash interest received	352	90
Cash interest paid	(2,846)	(2,808)
	(2,494)	(2,718)
Cash taxes paid	-	-

12. COMMITMENTS

The following is a summary of the Company's contractual obligations and commitments at December 31, 2010:

	2011	2012	2013	2014	2015	Thereafter	Total
Office leases	662	135	45	-	-	-	842
Field equipment leases	686	619	232	-	-	-	1,537
Firm transportation agreements	491	457	178	117	28	12	1,283
Capital processing agreements	-	-	-	-	-	400	400
	1,839	1,211	455	117	28	412	4,062

13. SUBSEQUENT EVENT

Subsequent to December 31, 2010, the Company issued approximately 15.6 million common shares at a price of \$2.30 per share for gross proceeds of approximately \$36.0 million. The proceeds will be used to fund the Company's Edson Bluesky and Dawson Montney developments and other capital projects and for general corporate purposes.

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

Don D. Copeland, P.Eng.
Director

Brian Boulanger
Director

Patricia Phillips
Director

BANK

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

TRANSFER AGENT

Valiant Trust Company
310, 606 - 4th Street SW
Calgary, Alberta T2P 1T1

LEGAL COUNSEL

Gowling Lafleur Henderson LLP
1400, 700 – 2nd Street SW
Calgary, Alberta T2P 4V5

AUDITORS

KPMG LLP
2700, 205 - 5th Avenue SW
Calgary, Alberta T2P 4B9

INDEPENDENT ENGINEERS

GLJ Petroleum Consultants Ltd.
4100, 400 - 3rd Avenue SW
Calgary, Alberta T2P 4H2

For further information, please visit our website at www.crocotta.ca or contact:

Crocotta Energy Inc.
Suite 700, 639 - 5th Avenue SW
Calgary, Alberta T2P 0M9
Phone: (403) 538-3737
Fax: (403) 538-3735

Robert J. Zakresky, President & CEO
Phone: (403) 538-3736

Nolan Chicoine, VP Finance & CFO
Phone: (403) 538-3738