



PRESS RELEASE

Q1 2011 FINANCIAL AND OPERATING RESULTS

FOR IMMEDIATE RELEASE – June 8, 2011

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

HIGHLIGHTS

- Raised gross proceeds of \$36.0 million through the issuance of 15.6 million common shares at a price of \$2.30 per share
- Reduced net debt to \$17.6 million from \$35.2 million at December 31, 2010
- Drilled two successful 100% working interest Bluesky wells at Edson, AB

FINANCIAL RESULTS ⁽¹⁾

(\$000s, except per share amounts)	Three Months Ended March 31		
	2011	2010	% Change
Oil and natural gas sales	7,480	10,962	(32)
Funds from operations ⁽²⁾	2,014	4,004	(50)
Per share - basic and diluted	0.03	0.06	(50)
Net loss	(4,449)	(2,566)	73
Per share - basic and diluted	(0.06)	(0.04)	50
Capital expenditures	18,178	5,489	231
Property dispositions	(134)	19,338	(101)
Net debt ⁽³⁾	17,610	52,818	(67)
Common shares outstanding (000s)			
Weighted average - basic	71,597	65,106	10
Weighted average - diluted	73,091	65,168	12
End of period - basic	80,874	65,116	24
End of period - diluted	90,680	74,639	21

- (1) On January 1, 2011, the Company adopted International Financial Reporting Standards ("IFRS") for financial reporting purposes, using a transition date of January 1, 2010. Previously, the Company's financial statements were prepared under Canadian generally accepted accounting principles. As such, certain 2010 comparative results have been adjusted to conform to IFRS.
- (2) Funds from operations and funds from operations per share do not have any standardized meaning prescribed by IFRS 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.
- (3) Net debt includes current liabilities (including the revolving credit facility and excluding the current portion of provisions) less current assets (excluding property, plant, and equipment, held for sale). Net debt does not have any standardized meaning prescribed by IFRS 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 RESULTS

Three Months Ended March 31

	2011	2010	% Change
Daily production			
Oil and NGLs (bbls/d)	586	810	(28)
Natural gas (mcf/d)	10,124	10,763	(6)
Oil equivalent (boe/d)	2,274	2,604	(13)
Revenue			
Oil and NGLs (\$/bbl)	68.67	71.47	(4)
Natural gas (\$/mcf)	4.23	5.94	(29)
Oil equivalent (\$/boe)	36.55	46.78	(22)
Royalties			
Oil and NGLs (\$/bbl)	19.76	22.57	(12)
Natural gas (\$/mcf)	0.27	0.64	(58)
Oil equivalent (\$/boe)	6.29	9.67	(35)
Production expenses			
Oil and NGLs (\$/bbl)	10.45	9.67	8
Natural gas (\$/mcf)	1.63	1.32	23
Oil equivalent (\$/boe)	9.95	8.47	17
Transportation expenses			
Oil and NGLs (\$/bbl)	0.87	1.64	(47)
Natural gas (\$/mcf)	0.17	0.17	-
Oil equivalent (\$/boe)	0.98	1.23	(20)
Operating netback ⁽¹⁾			
Oil and NGLs (\$/bbl)	37.59	37.59	-
Natural gas (\$/mcf)	2.16	3.81	(43)
Oil equivalent (\$/boe)	19.33	27.41	(29)
Depletion and depreciation (\$/boe)	(14.80)	(14.88)	(1)
Asset impairment (\$/boe)	(12.95)	(14.61)	(11)
General and administrative expenses (\$/boe)	(8.12)	(4.73)	72
Share based compensation (\$/boe)	(2.23)	(1.09)	105
Finance expenses (\$/boe)	(2.32)	(4.94)	(53)
Finance income (\$/boe)	-	0.30	(100)
Loss on sale of assets (\$/boe)	(0.65)	(0.37)	76
Realized loss on risk management contracts (\$/boe)	-	(1.54)	(100)
Unrealized gain on risk management contracts (\$/boe)	-	3.52	(100)
Net loss (\$/boe)	(21.74)	(10.93)	99

(1) Operating netback does not have any standardized meaning prescribed by IFRS 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.

OPERATIONS UPDATE

In the first quarter of 2011, Crocotta focused almost exclusively on the Edson field. Crocotta completed its third successful Bluesky horizontal well (29% working interest) that came on production in mid-January at just under 600 boepd and drilled two other 100% working interest Bluesky wells (completed in Q2 2011) that came on production at 500 boepd and 1,400 boepd, respectively. Full details of these wells were previously press released (see June 7, 2011 press release titled "Crocotta Energy Announces Drilling Success at Edson"). Crocotta also expanded facilities and pipelines at Edson during the quarter to accommodate increased throughput from the 2011 drilling program.

For the remainder of 2011, Crocotta plans to continue drilling at Edson to further delineate the Bluesky field, test other prospective zones in the area, and increase corporate production and cash flow. With production estimated to reach approximately 4,000 boepd at the end of June, we are confident that we can meet or exceed our 2011 exit guidance of 4,500 boepd.

MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A")

June 6, 2011

The MD&A should be read in conjunction with the unaudited financial statements and related notes for the three months ended March 31, 2011 and 2010 and the audited financial statements and related notes for the year ended December 31, 2010.

DESCRIPTION OF BUSINESS

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".

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.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

On January 1, 2011, the Company adopted International Financial Reporting Standards ("IFRS") for financial reporting purposes, using a transition date of January 1, 2010. The interim financial statements for the three months ended March 31, 2011 and related notes have been prepared under IFRS in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*. Previously, the Company prepared its interim and annual financial statements in accordance with Canadian generally accepted accounting principles ("previous GAAP"). As such, certain 2010 comparative results included in this MD&A have been adjusted to conform to IFRS. The adoption of IFRS has not had an impact on the Company's operations, strategic decisions, or overall cash flows. The reporting and measurement currency of the Company is the Canadian dollar.

Upon transition to IFRS on January 1, 2010, the Company used certain exemptions allowed under IFRS 1, *First Time Adoption of International Reporting Standards*. The exemptions used were as follows:

Full cost accounting

IFRS 1 allows an entity that used full cost accounting under its previous GAAP to elect, at the time of adoption of IFRS, to measure oil and natural gas assets in the development and production phases by allocating the amount determined under the entity's previous GAAP for those assets to the underlying assets on a pro rata basis using reserve volumes or reserve values as of that date. The Company has used reserve values at January 1, 2010 to allocate the cost of development and production assets.

Business combinations

IFRS 1 allows an entity to use the IFRS rules for business combinations on a prospective basis rather than restating all business combinations prior to transition to IFRS that were accounted for under previous GAAP.

Share based compensation

IFRS 1 allows an entity an exemption on IFRS 2, *Share-Based Payments*, with respect to equity instruments which vested before the transition date to IFRS.

Decommissioning obligations

As the Company elected to use the full cost accounting exemption for oil and gas, a decommissioning obligation exemption was also used that allows for the adjustment of decommissioning obligations on transition to IFRS to be offset to the Company's opening deficit on the statement of financial position on the transition date.

The most significant changes under IFRS relate to the Company's accounting policies on property, plant, and equipment, decommissioning obligations, and share based compensation. The following is a summary of the significant differences.

Property, plant, and equipment

Depletion and depreciation

Under previous GAAP, depletion was calculated on the full cost oil and gas pool using the unit of production method based on total proved reserves. Under IFRS, significant parts of an item of property, plant, and equipment, including oil and natural gas interests, are accounted for as separate items or major components and depleted or depreciated separately. Depletion is calculated on oil and natural gas development and production assets using the unit of production method based on total proved plus probable reserves. Depreciation is calculated on major components of property, plant, and equipment on a straight-line basis over the useful life of the assets. The use of proved plus probable reserves in the calculation of depletion resulted in a \$9.3 million decrease to depletion and depreciation expense in 2010 under IFRS as compared to previous GAAP.

Impairment testing

Under previous GAAP, an impairment was recognized if the carrying value of the full cost oil and gas pool exceeded the undiscounted future cash flows from proved reserves. Under IFRS, property, plant, and equipment is grouped into cash generating units ("CGU") based on their ability to generate largely independent cash flows. An impairment is recognized if the carrying value of a CGU exceeds the greater of its fair value less costs to sell or value in use. As CGUs are smaller groups of assets and the impairment test uses discounted cash flows, or fair value, impairments are expected to be recognized more frequently under IFRS. Upon transition to IFRS on January 1, 2010, the Company recognized impairments of \$35.8 million relating to certain of the Company's CGUs. During 2010, net impairments of \$7.1 million were recognized.

Decommissioning obligations

Under previous GAAP, decommissioning obligations were estimated using a credit adjusted risk free discount rate. Under IFRS, the Company estimates its decommissioning obligations using a risk free rate. As a result of this change, more frequent revisions to the decommissioning obligation are expected due to the fluctuations in the risk free rate. Upon transition to IFRS on January 1,

2010, the impact of this change was a \$5.0 million increase in the decommissioning obligation. At December 31, 2010, the decommissioning obligation was \$5.6 million higher than under previous GAAP.

Additionally, under previous GAAP, accretion of the discount was included in depletion and depreciation expense. Under IFRS, accretion is included in finance expenses.

Share based compensation

Under previous GAAP, the Company recognized an expense related to share based compensation on a straight-line basis through the date of full vesting and did not incorporate a forfeiture rate at the grant date. Under IFRS, the Company is required to recognize the expense over the individual vesting periods for the graded vesting awards and estimate a forfeiture rate at the date of grant and update it throughout the vesting period. The impact on transition to IFRS was an increase to contributed surplus of \$0.8 million. During 2010, share based compensation expense was \$0.1 million lower under IFRS than under previous GAAP as a result of the changes.

The Company's IFRS accounting policies are provided in note 3 to the March 31, 2011 interim financial statements. In addition, note 18 to the interim financial statements provides reconciliations between the Company's 2010 previous GAAP results and its 2010 IFRS results. The reconciliations include the statements of financial position at January 1, 2010, March 31, 2010, and December 31, 2010 and statements of operations and comprehensive loss and cash flows for the three months ended March 31, 2010 and the year ended December 31, 2010.

CRITICAL ACCOUNTING ESTIMATES

Management is required to make estimates, judgments, and assumptions in the application of IFRS that affect the reported amounts of assets and liabilities at the date of the financial statements and revenues and expenses for the period then ended. Certain of these estimates may change from period to period resulting in a material impact on the Company's results from operations, financial position, and change in financial position. The following summarizes the Company's significant critical accounting estimates.

Oil and natural gas reserves

The Company engages a qualified, independent oil and gas reserves evaluator to perform an estimation of the amount of the Company's oil and natural gas reserves at least annually. Reserves form the basis for the calculation of depletion and assessment of impairment of oil and natural gas assets. Reserves are estimated using the definitions of reserves prescribed by National Instrument 51-101 and the Canadian Oil and Gas Evaluation Handbook.

Proved plus probable reserves are defined as the estimated quantities of crude oil, natural gas liquids including condensate, and natural gas that geological and engineering data demonstrate a 50 percent probability of being recovered at the reported level. Due to the inherent uncertainties and the necessarily limited nature of reservoir data, estimates of reserves are inherently imprecise, require the application of judgment, and are subject to change as additional information becomes available. The estimates are made using all available geological and reservoir data as well as historical production data. Estimates are reviewed and revised as appropriate. Revisions occur as a result of changes in prices, costs, fiscal regimes, reservoir performance, or changes in the Company's plans.

Impairment testing

The impairment testing of property, plant, and equipment is based on estimates of proved plus probable reserves, production rates, oil and natural gas future prices, future costs, and other relevant assumptions. By their nature, these measurements are subject to measurement uncertainty and may impact the financial statements of future periods.

Decommissioning obligations

The Company estimates obligations under environmental regulations in respect of decommissioning and site restoration of its oil and natural gas assets. These obligations are determined based on the present value of estimated expenditures required to abandon wells, dismantle production facilities, and restore producing areas in accordance with relevant legislation, discounted from the date when the costs are expected to be incurred. Most of the decommissioning expenditures of the Company are estimated to take place far into the future. Changes in the estimated timing and costs of performing decommissioning work, which are subject to uncertainty and interpretation, would have a significant effect on the carrying amount of the decommissioning obligation.

FREQUENTLY RECURRING TERMS

The Company uses the following frequently recurring industry terms in the MD&A: "bbls" refers to barrels, "mcf" refers to thousand cubic feet, and "boe" refers to barrel of oil equivalent. Disclosure provided herein in respect of a 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 equivalent has been used for the calculation of boe amounts in the MD&A. This boe conversion rate 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 MD&A refers to certain financial measures that are not determined in accordance with IFRS (or "GAAP"). This MD&A 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 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 and depreciation, asset impairments, share based compensation, non-cash finance expenses, gains and losses on asset sales, deferred income taxes, and unrealized gains and losses on risk management contracts) and excludes the change in non-cash working capital related to operating

activities and expenditures on decommissioning obligations. 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 excluding the current portion of decommissioning obligations) less current assets (excluding property, plant, and equipment, held for sale).

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 MD&A 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.

SUMMARY OF FINANCIAL RESULTS

(\$000s, except per share amounts)	Three Months Ended March 31		
	2011	2010	% Change
Oil and natural gas sales	7,480	10,962	(32)
Funds from operations	2,014	4,004	(50)
Per share - basic and diluted	0.03	0.06	(50)
Net loss	(4,449)	(2,566)	73
Per share - basic and diluted	(0.06)	(0.04)	50
Total assets	195,044	201,560	(3)
Total long-term liabilities	14,005	13,767	2
Net debt	17,610	52,818	(67)

PRODUCTION

	Three Months Ended March 31		
	2011	2010	% Change
Average Daily Production			
Oil and NGLs (bbls/d)	586	810	(28)
Natural gas (mcf/d)	10,124	10,763	(6)
Combined (boe/d)	2,274	2,604	(13)

Daily production for the three months ended March 31, 2011 decreased 13% to 2,274 boe/d compared to 2,604 boe/d for the comparative period in 2010. During the first quarter of 2011, the Company increased production in its core Edson area by 570 boe/d compared to the first quarter of 2010 as a result of successful capital activity in the latter half of 2010 and the first three months of 2011. This increase in production was more than offset by the sale of certain oil and natural gas assets during 2010 which produced 680 boe/d during the three months ended March 31, 2010 and production declines in non-core areas.

Crocotta's production profile for the first quarter of 2011 was comprised of 74% natural gas and 26% oil and NGLs compared to 69% natural gas and 31% oil and NGLs for the first quarter of 2010. During the year ended December 31, 2010, Crocotta's production profile was comprised of 70% natural gas and 30% oil and NGLs. The change in the production profile was the result of the sale of certain oil weighted assets during the first and fourth quarters of 2010.

REVENUE (\$000s)	Three Months Ended March 31		
	2011	2010	% Change
Oil and NGLs	3,623	5,211	(30)
Natural gas	3,857	5,751	(33)
Total	7,480	10,962	(32)
Average Sales Price			
Oil and NGLs (\$/bbl)	68.67	71.47	(4)
Natural gas (\$/mcf)	4.23	5.94	(29)
Combined (\$/boe)	36.55	46.78	(22)

Revenue totaled \$7.5 million for the first quarter of 2011, down 32% from \$11.0 million in the comparative period. The decrease in revenue was due to a decrease in production, as discussed above, combined with a decrease in oil, natural gas, and NGLs commodity prices.

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

Commodity Pricing	Three Months Ended March 31		
	2011	2010	% Change
Oil and NGLs			
Corporate price (\$CDN/bbl)	68.67	71.47	(4)
Edmonton par (\$CDN/bbl)	88.51	80.31	10
West texas intermediate (\$US/bbl)	93.98	78.68	19
Natural gas			
Corporate price (\$CDN/mcf)	4.23	5.94	(29)
AECO price (\$CDN/mcf)	3.70	5.31	(30)
Exchange rate			
CDN/US dollar average exchange rate	1.0142	0.9609	6

Differences between corporate and benchmark prices can be the result of quality differences (higher or lower API oil and higher or lower heat content natural gas), 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. The Company's corporate average oil and NGLs price was 77.6% of Edmonton Par price for the three months ended March 31, 2011, a decrease from 89.0% in the comparative period. The decrease was due to the sale of certain oil weighted assets during the first quarter of 2010, which increased the percentage of NGL volumes included in the corporate price from 44.7% in the first quarter of 2010 to 60.4% in the first quarter of 2011. Corporate average natural gas prices were 114.3% of AECO prices for the three months ended March 31, 2011, a slight increase from 111.9% in the comparative period.

ROYALTIES (\$000s)	Three Months Ended March 31		
	2011	2010	% Change
Oil and NGLs	1,043	1,646	(37)
Natural gas	244	621	(61)
Total	1,287	2,267	(43)
Average Royalty Rate (% of sales)			
Oil and NGLs	28.8	31.6	(9)
Natural gas	6.3	10.8	(42)
Combined	17.2	20.7	(17)

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 March 31, 2011, oil, NGLs, and natural gas royalties decreased 43% to \$1.3 million from \$2.3 million in the comparative period. The decrease in royalties was the result of decreases in both production and commodity prices in the first quarter of 2011 compared to the first quarter of 2010.

The overall effective royalty rate was 17.2% for the three months ended March 31, 2011 compared to 20.7% for the three months ended March 31, 2010. The effective oil and NGLs royalty rate decreased as a result of the disposition of certain oil weighted assets during the

first quarter of 2010 that had higher associated royalty rates. The effective natural gas royalty rate for the three months ended March 31, 2011 decreased from the comparative period due mainly to decreases in natural gas commodity prices.

PRODUCTION EXPENSES

Three Months Ended March 31

	2011	2010	% Change
Oil and NGLs (\$/bbl)	10.45	9.67	8
Natural gas (\$/mcf)	1.63	1.32	23
Combined (\$/boe)	9.95	8.47	17

Per unit production expenses for the three months ended March 31, 2011 were \$9.95/boe, up from \$8.47/boe for the comparative period ended March 31, 2010. The increase in per unit production expenses was due to a decrease in production in the first quarter of 2011 compared to the first quarter of 2010. In addition, the Company experienced a decline in processing and gathering income generated by one of the plants for which it has an ownership interest as a result of a decrease in third party volumes being processed. The Company continues to focus on opportunities that will improve operational efficiencies and reduce per boe production expenses to enhance operating netbacks.

TRANSPORTATION EXPENSES

Three Months Ended March 31

	2011	2010	% Change
Oil and NGLs (\$/bbl)	0.87	1.64	(47)
Natural gas (\$/mcf)	0.17	0.17	-
Combined (\$/boe)	0.98	1.23	(20)

Transportation expenses are mainly third-party pipeline tariffs incurred to deliver production to the purchasers at main hubs. For the quarter ended March 31, 2011 compared to the quarter ended March 31, 2010, transportation expenses decreased 20% to \$0.98/boe from \$1.23/boe. The decrease in transportation expenses was solely due to a significant decrease in oil and NGLs transportation expenses. During the third quarter of 2010, the Company changed its sales point and marketer for a significant portion of NGLs volumes produced. This, combined with the sale of certain oil weighted assets during 2010, resulted in the decrease in period-over-period transportation expenses.

OPERATING NETBACK

Three Months Ended March 31

	2011	2010	% Change
Oil and NGLs (\$/bbl)			
Revenue	68.67	71.47	(4)
Royalties	19.76	22.57	(12)
Production expenses	10.45	9.67	8
Transportation expenses	0.87	1.64	(47)
Operating netback	37.59	37.59	-
Natural gas (\$/mcf)			
Revenue	4.23	5.94	(29)
Royalties	0.27	0.64	(58)
Production expenses	1.63	1.32	23
Transportation expenses	0.17	0.17	-
Operating netback	2.16	3.81	(43)
Combined (\$/boe)			
Revenue	36.55	46.78	(22)
Royalties	6.29	9.67	(35)
Production expenses	9.95	8.47	17
Transportation expenses	0.98	1.23	(20)
Operating netback	19.33	27.41	(29)

During the first quarter of 2011, Crocotta generated an operating netback of \$19.33/boe, down 29% from \$27.41/boe for the first quarter of 2010. The decrease was mainly due to a decline in oil, NGLs, and natural gas commodity prices in 2011.

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

(\$/boe)	Three Months Ended March 31		
	2011	2010	% Change
Operating netback	19.33	27.41	(29)
Depletion and depreciation	(14.80)	(14.88)	(1)
Asset impairment	(12.95)	(14.61)	(11)
General and administrative expenses	(8.12)	(4.73)	72
Share based compensation	(2.23)	(1.09)	105
Finance expenses	(2.32)	(4.94)	(53)
Finance income	-	0.30	(100)
Loss on sale of assets	(0.65)	(0.37)	76
Realized loss on risk management contracts	-	(1.54)	(100)
Unrealized gain on risk management contracts	-	3.52	(100)
Net loss	(21.74)	(10.93)	99

DEPLETION AND DEPRECIATION	Three Months Ended March 31		
	2011	2010	% Change
Depletion and depreciation (\$000s)	3,029	3,487	(13)
Depletion and depreciation (\$/boe)	14.80	14.88	(1)

Under IFRS, the Company calculates depletion on property, plant, and equipment based on proved plus probable reserves. Plant turnarounds and major overhauls are depreciated over three or four years, depending on each facility. Depletion and depreciation for the first three months of 2011 was \$14.80/boe, which was consistent with depletion and depreciation of \$14.88/boe for the three months ended March 31, 2010.

ASSET IMPAIRMENT	Three Months Ended March 31		
	2011	2010	% Change
Asset impairment (\$000s)	2,649	3,424	(23)
Asset impairment (\$/boe)	12.95	14.61	(11)

Under IFRS, property, plant, and equipment is grouped into cash generating units ("CGU") based on their ability to generate largely independent cash flows. An impairment is recognized if the carrying value of a CGU exceeds the greater of its fair value less costs to sell or value in use. For the three months ended March 31, 2011, the Company recognized impairments of \$2.6 million relating to the expiry of undeveloped land rights and the determination of certain exploration and evaluation activities to be uneconomical. For the three months ended March 31, 2010, as a result of continued decreases in natural gas prices, the Company recognized impairments of \$2.7 million relating to various development and production assets. In addition, the Company recognized impairments of \$0.7 million relating to the expiry of undeveloped land.

GENERAL AND ADMINISTRATIVE (\$000s)	Three Months Ended March 31		
	2011	2010	% Change
G&A expenses (gross)	2,129	1,370	55
G&A capitalized	(108)	(56)	93
G&A recoveries	(359)	(206)	74
G&A expenses (net)	1,662	1,108	50
G&A expenses (\$/boe)	8.12	4.73	72

General and administrative expenses ("G&A") increased to \$8.12/boe for the first quarter of 2011 compared to \$4.73/boe for the first quarter of 2010. The increase in G&A expenses was due to an increase in various administrative costs during the first quarter of 2011. The increase in capitalized G&A and G&A recoveries was due to a significant increase in capital activity in the first three months of 2011 compared to the first three months of 2010.

SHARE BASED COMPENSATION	Three Months Ended March 31		
	2011	2010	% Change
Share based compensation (\$000s)	457	257	78
Share based compensation (\$/boe)	2.23	1.09	105

The Company grants stock options to officers, directors, employees and consultants and calculates the related share based compensation using the Black-Scholes option pricing model. Under IFRS, the Company recognizes the expense over the individual vesting periods for the graded vesting awards and estimates a forfeiture rate at the date of grant and updates it throughout the vesting period. Share based compensation expense increased to \$2.23/boe for the three months ended March 31, 2011 from \$1.09/boe in the comparative period. During the first quarter of 2011, the Company granted 2.5 million options (2010 – 0.1 million), resulting in the increase in share based compensation expense in 2011 compared to 2010.

FINANCE EXPENSES

(\$000s)	Three Months Ended March 31		
	2011	2010	% Change
Interest expense	280	1,018	(72)
Accretion of decommissioning obligations	124	140	(11)
Unrealized loss on investments	70	-	100
Finance expenses	474	1,158	(59)
Finance expenses (\$/boe)	2.32	4.94	(53)

Interest expense amounts relate mainly to interest incurred on amounts drawn from the Company's credit facility. In 2010, interest expense also included interest incurred on a secured bridge facility acquired in conjunction with the acquisition of Salvo Energy Corporation in August 2009, which was repaid in full during the first quarter of 2010. The decrease in interest expense in the first quarter of 2011 compared to the first quarter of 2010 relates to a significant decrease in the amount drawn on the revolving credit facility (March 31, 2011 - \$11.2 million; March 31, 2010 - \$51.9 million). The decrease in the amount drawn on the revolving credit facility was the result of payments made during the latter half of 2010 and the first quarter of 2011 stemming from the disposition of certain oil and natural gas assets in the fourth quarter of 2010 and the issuance of approximately 15.6 million common shares for gross proceeds of approximately \$36.0 million in the first quarter of 2011, offset by capital expenditures in the fourth quarter of 2010 and the first quarter of 2011.

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 March 31, 2011 of \$1.31 per share, an unrealized loss was recognized for the period on the revaluation of warrants at March 31, 2011.

LOSS ON SALE OF ASSETS

(\$000s)	Three Months Ended March 31		
	2011	2010	% Change
Loss on sale of assets (\$000s)	134	86	56
Loss on sale of assets (\$/boe)	0.65	0.37	76

During the first quarter of 2011, the Company recognized a loss on sale of assets of \$0.1 million related to the final adjustments on the sale of certain oil and natural gas assets to Hyperion in the fourth quarter of 2010. The loss on sale of assets in the first quarter of 2010 related to a land exchange agreement whereby the Company exchanged interests in undeveloped land with an unrelated party.

FUNDS FROM OPERATIONS

Funds from operations for the three months ended March 31, 2011 was \$2.0 million (\$0.03 per diluted share) compared to \$4.0 million (\$0.06 per diluted share) for the three months ended March 31, 2010. The decrease was mainly due to a decline in oil, NGLs, and natural gas commodity prices in 2011 combined with a decrease in production.

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

(\$000s)	Three Months Ended March 31		
	2011	2010	% Change
Funds from operations (non-GAAP)	2,014	4,004	(50)
Decommissioning expenditures	-	(58)	(100)
Change in non-cash working capital	329	(611)	(154)
Cash flow from operating activities (GAAP)	2,343	3,335	(30)

NET LOSS

The Company had a net loss of \$4.4 million (\$0.06 per diluted share) for the three months ended March 31, 2011 compared to a net loss of \$2.6 million (\$0.04 per diluted share) for the three months ended March 31, 2010. The increase in the net loss was mainly a result of a decrease in revenue stemming from a decline in oil, NGLs, and natural gas commodity prices and a decrease in production.

CAPITAL EXPENDITURES

(\$000s)	Three Months Ended March 31		
	2011	2010	% Change
Land	503	737	(32)
Drilling, completions, and workovers	13,482	3,077	338
Equipment	3,858	1,558	148
Geological and geophysical	335	117	186
Exploration and development	18,178	5,489	231
Property dispositions	134	(19,338)	(101)
Total capital expenditures (dispositions)	18,312	(13,849)	(232)

For the three months ended March 31, 2011, the Company had net capital expenditures of \$18.3 million compared to net capital dispositions of \$13.8 million for the three months ended March 31, 2010. The increase in exploration and development expenditures in

the first quarter of 2011 was due mainly to a significant increase in capital activity in the Company's core Edson area. During the first quarter of 2011, Crocotta drilled 4 (3.1 net) wells, which resulted in 1 (1.0 net) oil well and 3 (2.1 net) natural gas wells. The wells are anticipated to be completed and brought onstream during the second quarter of 2011.

LIQUIDITY AND CAPITAL RESOURCES

The Company had net debt of \$17.6 million at March 31, 2011 compared to net debt of \$35.2 million at December 31, 2010. The decrease of \$17.6 million was mainly due to gross proceeds of \$36.0 million on the issuance of 15.6 million common shares and funds from operations of \$2.0 million, offset by \$18.2 million used for the purchase and development of oil and natural gas properties and equipment and share issue costs of \$2.1 million.

At March 31, 2011, 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 revolving credit facility bears interest at prime plus a range of 0.50% to 2.50% and is secured by a \$235 million fixed and floating charge debenture on the assets of the Company. At March 31, 2011, \$11.2 million (December 31, 2010 – \$35.4 million) had been drawn on the revolving credit facility. The next review of the revolving credit facility by the bank is scheduled on or before September 30, 2011.

During the first quarter of 2011, 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 Crocotta's Edson Bluesky and Dawson Montney developments, other capital projects, and for general corporate purposes.

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. Continued pressure on commodity prices would result in the Company experiencing reduced operating netbacks and funds from operations in future periods. Despite the economic downturn and financial market volatility, the Company continued to have access to both debt and equity markets in 2011. As noted above, the Company raised gross proceeds of approximately \$36.0 million from the issuance of common shares during the first quarter and at March 31, 2011, the Company had \$37.4 million available on its revolving credit facility. Management anticipates that the Company will continue to have adequate liquidity to fund budgeted capital investments through a combination of cash flow, equity, and debt. The Company is also pursuing further asset dispositions to support future capital programs. Crocotta's capital program is flexible and can be adjusted as needed based upon the current economic environment. The Company will continue to monitor the economic environment and 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 March 31, 2011:

(\$000s)	Total	Less than One Year	One to Three Years	After Three Years
Accounts payable and accrued liabilities	14,703	14,703	-	-
Revolving credit facility	11,164	11,164	-	-
Office leases	650	503	147	-
Field equipment leases	1,376	679	697	-
Firm transportation agreements	1,154	477	550	127
Capital processing agreements	368	-	-	368
Total contractual obligations	29,415	27,526	1,394	495

OUTSTANDING SHARE DATA

The Company is authorized to issue an unlimited number of voting common shares, an unlimited number of non-voting common shares, Class A preferred shares, issuable in series, 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)	March 31, 2011	June 6, 2011
Voting common shares	80,874	80,874
Stock options	6,285	6,349
Warrants	3,521	3,521
Total	90,680	90,744

SUMMARY OF QUARTERLY RESULTS ⁽¹⁾

	Q1 2011	Q4 2010	Q3 2010	Q2 2010	Q1 2010	Q4 2009	Q3 2009	Q2 2009
Average Daily Production								
Oil and NGLs (bbls/d)	586	647	862	665	810	1,140	1,000	722
Natural gas (mcf/d)	10,124	9,958	10,530	10,698	10,763	12,157	10,005	7,706
Combined (boe/d)	2,274	2,307	2,617	2,448	2,604	3,166	2,668	2,006
(\$000s, except per share amounts)								
Oil and natural gas sales	7,480	7,274	8,574	7,720	10,962	12,130	8,649	6,358
Funds from operations	2,014	4,200	3,477	2,493	4,004	3,972	1,752	1,884
Per share - basic and diluted	0.03	0.06	0.05	0.04	0.06	0.06	0.03	0.04
Net earnings (loss) before extraordinary items	(4,449)	656	(2,071)	(1,347)	(2,566)	(4,155)	(3,919)	(3,193)
Per share - basic and diluted	(0.06)	0.01	(0.03)	(0.02)	(0.04)	(0.06)	(0.06)	(0.07)
Net earnings (loss)	(4,449)	656	(2,071)	(1,347)	(2,566)	3,276	(3,919)	(3,193)
Per share - basic and diluted	(0.06)	0.01	(0.03)	(0.02)	(0.04)	0.05	(0.06)	(0.07)

(1) 2010 quarterly results have been adjusted to conform to IFRS. 2009 quarterly results have not been adjusted and reflect the results in accordance with previous GAAP.

A decrease in oil, NGLs, and natural gas commodity prices combined with a decrease in production stemming from asset dispositions during 2010 and the latter half of 2009 resulted in the Company experiencing a decline in funds from operations and an increase in the net loss in the first quarter of 2011 compared to prior quarters.

OPERATIONS UPDATE

In the first quarter of 2011, Crocotta focused almost exclusively on the Edson field. Crocotta completed its third successful Bluesky horizontal well (29% working interest) that came on production in mid-January at just under 600 boepd and drilled two other 100% working interest Bluesky wells (completed in Q2 2011) that came on production at 500 boepd and 1,400 boepd, respectively. Crocotta also expanded facilities and pipelines at Edson during the quarter to accommodate increased throughput from the 2011 drilling program.

For the remainder of 2011, Crocotta plans to continue drilling at Edson to further delineate the Bluesky field, test other prospective zones in the area, and increase corporate production and cash flow. With production estimated to reach approximately 4,000 boepd at the end of June, we are confident that we can meet or exceed our 2011 exit guidance of 4,500 boepd.

FUTURE CHANGES IN ACCOUNTING POLICIES

In October 2010, the International Accounting Standards Board (IASB) published IFRS 9, *Financial Instruments*, as part of its project to replace IAS 39, *Financial Instruments: Recognition and Measurement*. This first phase of the project outlines a single approach in determining if a financial asset or liability is measured at amortized cost or fair value and a single impairment method, replacing the multiple classifications and methods in IAS 39. The effective date for IFRS 9 is January 1, 2013. The Company is currently evaluating the impact of adopting IFRS 9.

In May 2011, the IASB issued IFRS 10, *Consolidated Financial Statements*. IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance in the determination of control where this is difficult to assess. The effective date for IFRS 10 is January 1, 2013. This standard will not have an impact on the Company's financial statements.

In May 2011, the IASB issued IFRS 11, *Joint Arrangements*. IFRS 11 provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement rather than its legal form, as is currently the case. The standard addresses inconsistencies in the reporting of joint arrangements by requiring a single method (equity method) to account for interests in jointly controlled entities. The effective date for IFRS 11 is January 1, 2013. This standard will not have an impact on the Company's financial statements.

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 management 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 the Company successfully acquiring or discovering new reserves. Without the continual addition of new reserves, any existing reserves the Company 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 the Company has identified as being the most prospective for increasing 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. The Company may use financial derivatives or physical delivery sales contracts to manage market risks. All such transactions are conducted within risk management tolerances that are reviewed by the Board of Directors.

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 US 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 (note 8). 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

Oil and natural gas prices are impacted by not only the relationship between the Canadian and US dollar but also by world economic events that dictate the levels of supply and demand. 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. The Company currently does not have any commodity price contracts in place.

Safety and Environmental Risks

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

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

Disclosure controls and procedures have been designed to ensure that information required to be disclosed by the Company is accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosure. The Company evaluated its disclosure controls and procedures for the year ended December 31, 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 IFRS. 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 its 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.
Condensed Statements of Financial Position
(unaudited)

(\$000s)	Note	March 31 2011	December 31 2010	January 1 2010
Assets				
Current assets				
Cash and cash equivalents		-	-	1,854
Accounts receivable		7,374	10,159	5,042
Prepaid expenses and deposits		874	878	1,443
Investments	(14)	9	79	-
Property, plant, and equipment, held for sale	(7)	2,070	2,020	21,880
		10,327	13,136	30,219
Property, plant, and equipment	(6)	150,849	134,915	151,443
Exploration and evaluation assets	(5)	27,796	31,405	36,398
Deferred income taxes		6,072	6,072	5,415
		184,717	172,392	193,256
		195,044	185,528	223,475
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities		14,703	10,930	6,397
Revolving credit facility	(8)	11,164	35,386	52,355
Secured bridge facility		-	-	20,243
Risk management contracts		-	-	1,042
Decommissioning obligations, held for sale	(9)	1,064	1,064	1,705
		26,931	47,380	81,742
Decommissioning obligations	(9)	14,005	14,035	13,408
		40,936	61,415	95,150
Shareholders' Equity				
Shareholders' capital	(10)	202,201	168,164	168,038
Contributed surplus		5,922	5,515	4,525
Deficit		(54,015)	(49,566)	(44,238)
		154,108	124,113	128,325
		195,044	185,528	223,475

The accompanying notes are an integral part of these condensed interim financial statements.

Crocotta Energy Inc.
Condensed Statements of Operations and Comprehensive Loss
(unaudited)

(\$000s, except per share amounts)	Note	Three Months Ended March 31	
		2011	2010
Revenue			
Oil and natural gas sales		7,480	10,962
Royalties		(1,287)	(2,267)
		6,193	8,695
Realized loss on risk management contracts		-	(360)
Unrealized gain on risk management contracts		-	824
		6,193	9,159
Expenses			
Production		2,037	1,986
Transportation		200	288
Depletion and depreciation	(6)	3,029	3,487
Asset impairment	(5,6)	2,649	3,424
General and administrative		1,662	1,108
Share based compensation	(11)	457	257
		10,034	10,550
Operating loss		(3,841)	(1,391)
Other Expenses (Income)			
Finance expense	(13)	474	1,158
Finance income		-	(69)
Loss on sale of assets		134	86
		608	1,175
Net loss and comprehensive loss		(4,449)	(2,566)
Net loss per share			
Basic and diluted		(0.06)	(0.04)

The accompanying notes are an integral part of these condensed interim financial statements.

Crocotta Energy Inc.
Condensed Statements of Shareholders' Equity
(unaudited)

Three Months Ended March 31

(\$000s)	2011	2010
Shareholders' Capital		
Balance, beginning of period	168,164	168,038
Issue of shares (net of share issue costs)	33,844	-
Issued on exercise of stock options	114	42
Share based compensation - settlements	79	29
Balance, end of period	202,201	168,109
Contributed Surplus		
Balance, beginning of period	5,515	4,525
Share based compensation - expensed	457	257
Share based compensation - capitalized	29	28
Share based compensation - settlements	(79)	(29)
Balance, end of period	5,922	4,781
Deficit		
Balance, beginning of period	(49,566)	(44,238)
Net loss	(4,449)	(2,566)
Balance, end of period	(54,015)	(46,804)
Total Shareholders' Equity	154,108	126,086

The accompanying notes are an integral part of these condensed interim financial statements.

Crocotta Energy Inc.
Condensed Statements of Cash Flows
(unaudited)

(\$000s)	Note	Three Months Ended March 31	
		2011	2010
Operating Activities			
Net loss		(4,449)	(2,566)
Depletion and depreciation	(6)	3,029	3,487
Asset impairment	(5,6)	2,649	3,424
Share based compensation	(11)	457	257
Finance expense	(13)	474	1,158
Interest paid	(13)	(280)	(1,018)
Loss on sale of assets		134	86
Unrealized gain on risk management contracts		-	(824)
		2,014	4,004
Decommissioning expenditures		-	(58)
Change in non-cash working capital	(17)	329	(611)
		2,343	3,335
Financing Activities			
Issuance of shares	(10)	36,074	43
Share issue costs	(10)	(2,116)	-
Revolving credit facility	(8)	(24,222)	(426)
Secured bridge facility		-	(20,243)
		9,736	(20,626)
Investing Activities			
Capital expenditures - property, plant, and equipment	(6)	(17,025)	(3,819)
Capital expenditures - exploration and evaluation assets	(5)	(1,153)	(1,670)
Asset dispositions		(134)	19,338
Change in non-cash working capital	(17)	6,233	1,915
		(12,079)	15,764
Change in cash and cash equivalents		-	(1,527)
Cash and cash equivalents, beginning of period		-	1,854
Cash and cash equivalents, end of period		-	327

The accompanying notes are an integral part of these condensed interim financial statements.

1. REPORTING ENTITY

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 conducts many of its activities jointly with others and these financial statements reflect only the Company's proportionate interest in such activities.

2. BASIS OF PRESENTATION

(a) Statement of compliance

These interim financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting* and accordingly do not include all of the information required in the preparation of annual financial statements. As these are Crocotta's first interim financial statements prepared under International Financial Reporting Standards ("IFRS"), the guidelines under IFRS 1, *First-time Adoption of International Financial Reporting Standards* have been applied as discussed in note 18. Prior to 2011, Crocotta prepared its interim and annual financial statements in accordance with Canadian Generally Accepted Accounting Principles ("previous GAAP").

Crocotta's significant accounting policies under IFRS are presented in note 3. These policies have been retrospectively and consistently applied except where specific exemptions permitted an alternative treatment upon transition to IFRS in accordance with IFRS 1. The impact of the new standards, including reconciliations presenting the change from previous GAAP to IFRS at January 1, 2010, as at and for the three months ended March 31, 2010, and as at and for the year ended December 31, 2010, is presented in note 18.

The financial statements were authorized for issue by the Board of Directors on June 6, 2011.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis except for held for trading financial assets, which are measured at fair value with changes in fair value recorded in earnings. The methods used to measure fair values are discussed in note 14.

(c) Functional and presentation currency

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

(d) Use of estimates and judgments

The preparation of financial statements requires management to make estimates and use judgment regarding the reported amounts of assets and liabilities at the date of the interim financial statements and the reported amounts of revenue and expenses during the period. By their nature, estimates are subject to measurement uncertainty and accordingly, actual results may differ from the estimated amounts. Estimates and the underlying assumptions are reviewed by management on an ongoing basis and revisions to such estimates are recognized in the period in which the estimates are revised and in any future periods affected. Significant estimates and judgments made by management in the preparation of these interim financial statements are as follows:

Amounts recorded for depletion and depreciation and amounts used for impairment calculations are based on estimates of petroleum and natural gas reserves. By their nature, the estimates of reserves, including the estimates of future prices, costs, discount rates, and the related future cash flows, are subject to measurement uncertainty.

Amounts recorded for decommissioning obligations and the related accretion expense requires the use of estimates with respect to the amount and timing of decommissioning expenditures. Other provisions are recognized in the period when it becomes probable that there will be a future cash outflow.

Compensation costs recognized for share based compensation plans are calculated using pricing models such as the Black-Scholes model, which is based on significant assumptions such as volatility, expected term, and forfeiture rate.

Tax interpretations, regulations, and legislation in the various jurisdictions in which the Company operates are subject to change. Deferred income tax assets are assessed by management at the end of each reporting period to determine the likelihood that they will be realized from future taxable earnings.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently by the Company to all periods presented in these interim financial statements. In addition to the quantitative adjustments from previous GAAP to IFRS, certain comparative amounts have been reclassified to conform to the current period's presentation.

(a) Basis of consolidation

Jointly controlled operations and jointly controlled assets

Many of the Company's oil and natural gas activities involve jointly controlled assets. The interim financial statements include the Company's share of these jointly controlled assets and a proportionate share of the relevant revenue and related costs.

(b) Financial instruments

Non-derivative financial instruments

Non-derivative financial instruments comprise cash and cash equivalents, accounts receivable, investments, accounts payable and accrued liabilities, and credit facilities. Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at fair value through earnings or loss, any directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, term deposits held with banks, and other short-term highly liquid investments with original maturities of three months or less.

Financial assets at fair value through earnings or loss

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

Other

Other non-derivative financial instruments, such as accounts receivable, accounts payable and accrued liabilities, and credit facilities, are measured at amortized cost using the effective interest method, less any impairment losses.

Derivative financial instruments

From time to time, the Company may enter into certain financial derivative contracts in order to manage the exposure to market risks from fluctuations in commodity prices. These instruments are not used for trading or speculative purposes. The Company does not designate financial derivative contracts as effective accounting hedges, and thus does not apply hedge accounting, even though the Company considers all commodity contracts to be economic hedges. As a result, all financial derivative contracts are classified as fair value through earnings or loss and are recorded on the balance sheet at fair value. Transaction costs are recognized in earnings or loss when incurred.

Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity, net of any tax effects.

(c) Property, plant, and equipment and exploration and evaluation assets

Recognition and measurement

Exploration and evaluation expenditures

Pre-license costs are recognized in the statement of operations and comprehensive income as incurred.

Exploration and evaluation costs, including the costs of acquiring licenses and drilling and completing wells, are initially capitalized as exploration and evaluation assets according to the nature of the expenditure. The costs are accumulated in cost centers by well, field, or exploration area pending determination of technical feasibility and commercial viability. The technical feasibility and commercial viability of extracting a mineral resource is considered to be determinable when proved or probable reserves are determined to exist. If proved or probable reserves are found, the accumulated costs and associated undeveloped land are transferred to property, plant, and equipment.

Development and production costs

Items of property, plant, and equipment, which include oil and natural gas development and production assets, are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. The cost of development and production assets includes: transfers from exploration and evaluation assets upon determination of technical feasibility and commercial viability; the cost to tie-in the well; facility costs; the cost of recognizing provisions for future restoration and decommissioning obligations; geological and geophysical costs; and directly attributable overhead.

Development and production assets are grouped into CGUs for impairment testing. The Company has grouped its development and production assets into the following seven CGUs: (i) Edson AB (ii) Smoky AB (iii) Northeast BC (iv) Lookout Butte AB (v) Ferrier AB (vi) Miscellaneous AB (vii) Saskatchewan.

When significant parts of an item of property, plant, and equipment, including oil and natural gas interests, have different useful lives, they are accounted for as separate items (major components). The Company capitalizes the cost of major plant turnarounds and overhauls and depreciates these costs over their estimated useful life of three or four years, depending on each plant.

Gains and losses on disposal of an item of property, plant, and equipment, including oil and natural gas interests, are determined by comparing the proceeds from disposal with the carrying amount of property, plant, and equipment and are recognized in the statement of operations and comprehensive income.

Subsequent costs

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of property, plant, and equipment are recognized as oil and natural gas interests only when they increase the future economic benefits embodied in the specific asset to which they relate. Capitalized oil and natural gas interests generally represent costs incurred in developing proved or probable reserves and bringing in or enhancing production from such reserves and are accumulated on a field or geotechnical area basis. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of property, plant, and equipment are recognized in operating expenses as incurred.

Depletion and depreciation

The net carrying value of development and production assets is depleted using the unit of production method by reference to the ratio of production in the period to the related proven plus probable reserves, taking into account the estimated future development costs necessary to bring those reserves into production and the estimated salvage value of the assets at the end of their useful lives. Future development costs are estimated taking into account the level of development required to produce the reserves.

Proven plus probable reserves are estimated at least annually by independent qualified reserve evaluators and represent the estimated quantities of crude oil, natural gas, and natural gas liquids which geological, geophysical, and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible. For interim financial statements, internal estimates of changes in reserves, future development costs, and salvage values are used in the determination of depletion for the period.

The Company has determined the estimated useful lives for gas processing plants, pipeline facilities, and compression facilities to be consistent with the reserve lives of the areas for which they serve. As such, the Company includes the cost of these assets within their associated CGU for the purpose of depletion using the unit of production method. For plant turnarounds and overhauls, the Company has estimated an average useful life of three or four years, depending on each plant, before further work must be performed and depreciates these costs using the straight-line method over the corresponding useful life.

The cost of office and other equipment is depreciated using the straight-line method over the estimated useful life of three years.

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

(d) Impairment

Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics. All impairment losses are recognized in the statement of operations and comprehensive income. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost, the reversal is recognized in the statement of operations and comprehensive income.

Non-financial assets

The carrying amounts of the Company's non-financial assets, other than exploration and evaluation assets and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Exploration and evaluation assets are assessed for impairment when they are reclassified to property, plant, and equipment or if facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (CGU). The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs to sell.

Fair value less costs to sell is determined as the amount that would be obtained from the sale of a CGU in an arm's length transaction between knowledgeable and willing parties. The fair value less costs to sell of oil and natural gas assets is generally determined as the net present value of the estimated future cash flows expected to arise from the continued use of the CGU, including any expansion projects and its eventual disposal, using assumptions that an independent market participant may take into account. The cash flows are discounted using an appropriate discount rate which would be applied by such a market participant to arrive at a net present value of the CGU.

Value in use is determined as the net present value of the estimated future cash flows expected to arise from the continued use of the asset in its present form and its eventual disposal. Value in use is determined by applying assumptions specific to

the Company's continued use and can only take into account approved future development costs. Estimates of future cash flows used in the evaluation of impairment of assets are made using management's forecast of commodity prices and expected production volumes. The latter takes into account assessments of field reservoir performance and includes expectations about proved and unproved volumes, which are risk-weighted using geological, production, recovery, and economic projections.

An impairment loss is recognized if the carrying amount of a CGU exceeds its estimated recoverable amount. Impairment losses are recognized in the statement of operations and comprehensive income. Impairment losses recognized in respect of CGUs are allocated to the assets in the CGUs on a pro rata basis. Impairment losses recognized in prior periods are assessed each reporting date if facts or circumstances indicate that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation, if no impairment loss had been recognized.

(e) Share based compensation

The Company has a share based compensation plan, which is described in note 11. The Company uses the fair value method for valuing share based compensation. Under this method, the compensation cost attributed to stock options is measured at fair value at the grant date and expensed over the vesting period with a corresponding increase to contributed surplus. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that vest. Upon the settlement of the stock options, the previously recognized value in contributed surplus is recorded as an increase to share capital.

(f) Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Provisions are not recognized for future operating losses.

Decommissioning obligations

The Company's activities give rise to dismantling, decommissioning, and site disturbance remediation activities. Provision is made for the estimated cost of abandonment and site restoration and capitalized in the relevant asset category. Decommissioning obligations are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as accretion (within finance expenses) whereas increases or decreases due to changes in the estimated future cash flows or changes in the discount rate are capitalized. Actual costs incurred upon settlement of the decommissioning obligations are charged against the provision to the extent the provision was established.

(g) Revenue

Revenue from the sale of oil and natural gas is recorded when the significant risks and rewards of ownership of the product are transferred to the buyer which is usually when legal title passes to the external party.

(h) Finance income and expenses

Finance income and expenses comprises interest expense, including interest on credit facilities, accretion on decommissioning obligations, unrealized gains and losses on investments, and interest income.

(i) Income tax

Income tax expense is comprised of current and deferred tax. Income tax expense is recognized in the statement of operations and comprehensive income except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous periods.

Deferred tax is recognized on the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis, or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable earnings will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(j) Earnings per share

Basic earnings per share is calculated by dividing the net earnings or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted earnings per share is

determined by adjusting the weighted average number of common shares outstanding during the period for the effects of dilutive instruments such as stock options granted.

4. DETERMINATION OF FAIR VALUES

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

Property, plant, and equipment and exploration and evaluation assets

The fair value of property, plant, and equipment and exploration and evaluation assets recognized in a business combination, is based on market values. The market value of property, plant, and equipment and exploration and evaluation assets is the estimated amount for which the assets could be exchanged on the acquisition date between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion. The market value of property, plant, and equipment and exploration and evaluation assets is estimated with reference to the discounted cash flows expected to be derived from oil and natural gas production based on externally prepared reserve reports. The risk-adjusted discount rate is specific to the asset with reference to general market conditions.

The market value of other items of property, plant, and equipment is based on the quoted market prices for similar items.

Cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, credit facilities

The fair value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and credit facilities at March 31, 2011 approximated their carrying value due to their short term to maturity.

Stock options

The fair value of stock options is measured using a Black-Scholes option pricing model. Measurement inputs include share price on the measurement date, exercise price of the instrument, estimated forfeiture rate, expected volatility (based on the weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instrument (based on historical experience and general information), expected dividends, and the risk free interest rate (based on government bonds).

5. EXPLORATION AND EVALUATION ASSETS

	Total
Balance, January 1, 2010	36,398
Additions	13,519
Transfer to property, plant, and equipment	(8,770)
Transfer to property, plant, and equipment, held for sale	(6,909)
Dispositions	(395)
Impairment	(2,438)
Balance, December 31, 2010	31,405
Additions	1,153
Transfer to property, plant, and equipment	(2,063)
Transfer to property, plant, and equipment, held for sale	(50)
Impairment	(2,649)
Balance, March 31, 2011	27,796

Exploration and evaluation assets consist of the Company's exploration projects which are pending the determination of proved or probable reserves. Additions represent the Company's share of costs incurred on exploration and evaluation assets during the period.

Impairments

Exploration and evaluation assets are assessed for impairment when they are reclassified to property, plant, and equipment or if facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For the three months ended March 31, 2011, impairments of \$2.6 million were recognized relating to the expiry of undeveloped land rights (CGUs – Ferrier AB and Miscellaneous AB) and the determination of certain exploration and evaluation activities to be uneconomical (CGUs – Miscellaneous AB and Saskatchewan). For the three months ended March 31, 2010, the Company recognized an impairment of \$0.7 million on exploration and evaluation assets resulting from the expiry of undeveloped land during the period (CGUs – Ferrier AB and Miscellaneous AB). For the year ended December 31, 2010, the Company recognized impairments of \$2.4 million due to the expiry of undeveloped land rights (CGUs – Ferrier AB and Miscellaneous AB).

6. PROPERTY, PLANT, AND EQUIPMENT

Cost or Deemed Cost	Oil and Natural Gas Assets	Office and Other Equipment	Total
Balance, January 1, 2010	187,224	347	187,571
Additions	15,115	-	15,115
Transfer from exploration and evaluation assets	8,770	-	8,770
Transfer to property, plant, and equipment, held for sale	(24,776)	-	(24,776)
Dispositions	(92)	-	(92)
Change in decommissioning obligation estimates	1,296	-	1,296
Decommissioning expenditures	868	-	868
Capitalized share based compensation	95	-	95
Balance, December 31, 2010	188,500	347	188,847
Additions	17,025	-	17,025
Transfer from exploration and evaluation assets	2,063	-	2,063
Change in decommissioning obligation estimates	(154)	-	(154)
Capitalized share based compensation	29	-	29
Balance, March 31, 2011	207,463	347	207,810

Accumulated Depletion, Depreciation, and Impairment	Oil and Natural Gas Assets	Office and Other Equipment	Total
Opening balance, January 1, 2010	-	287	287
Impairment, January 1, 2010	35,841	-	35,841
Balance, January 1, 2010	35,841	287	36,128
Depletion and depreciation	13,060	39	13,099
Impairment	4,705	-	4,705
Balance, December 31, 2010	53,606	326	53,932
Depletion and depreciation	3,022	7	3,029
Impairment	-	-	-
Balance, March 31, 2011	56,628	333	56,961

Net Book Value	Oil and Natural Gas Assets	Office and Other Equipment	Total
January 1, 2010	151,383	60	151,443
December 31, 2010	134,894	21	134,915
March 31, 2011	150,835	14	150,849

During the three months ended March 31, 2011, approximately \$0.1 million (2010 – \$0.1 million) of directly attributable general and administrative costs were capitalized as expenditures on property, plant, and equipment.

Impairments

Upon transition to IFRS on January 1, 2010, the Company recognized an impairment of \$35.8 million relating to various CGUs. For the first quarter of 2010, as a result of continued decreases in natural gas commodity prices, the Company recognized an impairment of \$2.7 million, relating to Smoky AB and Miscellaneous AB CGUs. For the year ended December 31, 2010, the Company recognized net impairments of \$4.7 million, comprised of impairments of \$5.8 million, relating to Lookout Butte AB, Ferrier AB, and Miscellaneous AB CGUs and impairment reversals of \$1.1 million, relating to Smoky AB. Impairment reversals were made during the fourth quarter of 2010 mainly as a result of successful capital activity which led to an increase in proved plus probable reserves. No impairment was recognized for the three months ended March 31, 2011.

7. PROPERTY, PLANT, AND EQUIPMENT, HELD FOR SALE

	Property, Plant, and Equipment	Exploration and Evaluation Assets	Total
Balance, January 1, 2010	21,880	-	21,880
Transfer from exploration and evaluation assets	-	6,909	6,909
Transfer from property, plant, and equipment	24,776	-	24,776
Dispositions	(44,799)	(6,746)	(51,545)
Balance, December 31, 2010	1,857	163	2,020
Transfer from exploration and evaluation assets	-	50	50
Balance, March 31, 2011	1,857	213	2,070

At March 31, 2011, the Company had property, plant, and equipment, held for sale of \$2.1 million, which consisted of oil and natural gas assets located in Saskatchewan. The assets were initially classified as held for sale upon transition to IFRS on January 1, 2010. The Company had an agreement in place to sell the assets during the first quarter of 2010; however, the purchaser was unable to secure financing to close the sale. The Company received deposits totaling approximately \$0.3 million

during the second quarter of 2010 relating to the sale and recognized the full amount as a gain. The assets continue to be marketed for sale and therefore remained in held for sale at March 31, 2011.

Dispositions

During the first quarter of 2010, the Company sold certain oil and natural gas assets located in Niton, Alberta, which were classified as held for sale upon transition to IFRS on January 1, 2010. Production from these assets totaled approximately 370 boe/d at the time of closing of the transaction. The assets were sold for cash proceeds of approximately \$19.5 million and no gain or loss was recognized on the disposition. During the fourth quarter of 2010, the Company sold certain oil and natural gas assets located in Niton, Pembina, and Chip Lake, Alberta, which were classified as held for sale during the second quarter of 2010. Production from these assets totaled approximately 420 boe/d at the time of closing of the transaction. The assets were sold for cash proceeds of approximately \$28.5 million and warrants valued at approximately \$0.2 million, which resulted in a loss on disposition of approximately \$0.4 million.

8. CREDIT FACILITIES

At March 31, 2011, the Company had a \$55.0 million revolving operating demand loan credit facility with a Canadian chartered bank. The revolving credit facility bears interest at prime plus a range of 0.50% to 2.50% and is secured by a \$235 million fixed and floating charge debenture on the assets of the Company. At March 31, 2011, \$11.2 million (December 31, 2010 – \$35.4 million) had been drawn on the revolving credit facility. The next review of the revolving credit facility by the bank is scheduled on or before September 30, 2011.

9. PROVISIONS – DECOMMISSIONING OBLIGATIONS

The Company's decommissioning obligations result from its ownership interest in oil and natural gas assets including well sites and gathering systems. The total decommissioning obligation is estimated based on the Company's net ownership interest in all wells and facilities, estimated costs to abandon and reclaim the wells and facilities, and the estimated timing of the costs to be incurred in future periods. The total undiscounted amount of the estimated cash flows (adjusted for inflation at 2% per year) required to settle the decommissioning obligations is approximately \$25.4 million which is estimated to be incurred between 2011 and 2041. At March 31, 2011, a risk-free rate of 3.7% (December 31, 2010 – 3.5%) was used to calculate the net present value of the decommissioning obligations.

	Three Months Ended March 31, 2011	Year Ended December 31, 2010
Balance, beginning of period	15,099	15,113
Provisions incurred	199	302
Provisions disposed	-	(1,811)
Provisions settled	-	(868)
Revisions	(353)	1,862
Accretion	124	501
Balance, end of period	15,069	15,099
Provisions, held for sale	1,064	1,064
Provisions	14,005	14,035
	15,069	15,099

10. SHARE CAPITAL

The Company is authorized to issue an unlimited number of voting common shares, an unlimited number of non-voting common shares, Class A preferred shares, issuable in series, and Class B preferred shares, issuable in series. No non-voting common shares or preferred shares have been issued.

Voting Common Shares	Number	Amount
Balance, January 1, 2010	65,084	168,038
Exercise of stock options	58	126
Balance, December 31, 2010	65,142	168,164
Exercise of stock options	97	193
Share issuance	15,635	35,961
Share issue costs		(2,117)
Balance, March 31, 2011	80,874	202,201

On February 23, 2011, 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. Proceeds from the share issuance will be used to fund the Company's Edson Bluesky and Dawson Montney developments, other capital projects, and general corporate purposes.

11. SHARE BASED COMPENSATION PLANS

Stock options

The Company has authorized and reserved for issuance 8.1 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 three years and an option's maximum term is 5 years. At March 31, 2011, 6.3 million options are outstanding at exercise prices ranging from \$1.10 to \$2.37 per share. The number and weighted average exercise price of stock options are as follows:

	Number of Options	Weighted Average Exercise Price (\$)
Balance, January 1, 2010	6,072	2.08
Granted	1,235	1.48
Exercised	(58)	1.31
Forfeited	(773)	2.19
Cancelled	(2,599)	3.01
Balance, December 31, 2010	3,877	1.26
Granted	2,540	2.37
Exercised	(97)	1.18
Forfeited	-	-
Cancelled	(35)	1.53
Balance, March 31, 2011	6,285	1.71
Exercisable at March 31, 2011	1,166	1.23

The following table summarizes the stock options outstanding and exercisable at March 31, 2011:

Exercise Price	Options Outstanding			Options Exercisable	
	Number	Weighted Average Remaining Life	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
\$1.10 to \$1.99	3,645	3.6	1.24	1,099	1.18
\$2.00 to \$2.37	2,640	4.8	2.36	67	2.10
	6,285	4.1	1.71	1,166	1.23

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.

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 number and weighted average exercise price of warrants are as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance, January 1, 2010	3,604	3.67
Forfeited	(83)	4.75
Balance, December 31, 2010 and March 31, 2011	3,521	3.64
Exercisable at March 31, 2011	3,521	3.64

The following table summarizes the warrants outstanding and exercisable at March 31, 2011:

Exercise Price	Warrants Outstanding and Exercisable			
	Number	Weighted Average Remaining Life	Weighted Average Exercise Price	Weighted Average Exercise Price
\$1.40	1,200	1.6	1.40	1.40
\$3.75 to \$4.05	740	1.8	3.76	3.76
\$4.50 to \$5.25	807	1.8	4.55	4.55
\$6.00 to \$6.75	774	1.8	6.05	6.05
	3,521	1.7	3.64	3.64

Share based compensation

The Company accounts for its share based compensation plans using the fair value method. Under this method, compensation cost is charged to earnings over the vesting period for stock options and warrants granted to officers, directors, employees, and consultants with a corresponding increase to contributed surplus.

The fair value of the stock options granted during the three months ended March 31, 2011 and 2010 were estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	Three months ended March 31	
	2011	2010
Risk-free interest rate (%)	2.5	2.1
Expected life (years)	4.0	4.0
Expected volatility (%)	84.2	95.6
Expected dividend yield (%)	-	-
Forfeiture rate (%)	9.8	3.6
Weighted average fair value of options granted (\$ per option)	1.47	1.01

12. PER SHARE AMOUNTS

The following table reconciles the weighted average number of shares used in the basic and diluted net loss per share calculations:

	Three months ended March 31	
	2011	2010
Weighted average number of shares - basic	71,597	65,106
Dilutive effect of share based compensation plans	1,494	62
Weighted average number of shares - diluted	73,091	65,168

13. FINANCE EXPENSES

Finance expenses for the three months ended March 31, 2011 and 2010 include the following:

	Three months ended March 31	
	2011	2010
Interest expense (note 8)	280	1,018
Accretion of decommissioning obligations (note 9)	124	140
Unrealized loss on investments (note 14)	70	-
Finance expenses	474	1,158

14. FAIR VALUE OF FINANCIAL 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
- Level 3 – inputs for the asset or liability that are not based on observable market data

The following tables provide fair value measurement information for financial assets and liabilities as of March 31, 2011 and December 31, 2010. The carrying value of cash and cash equivalents, accounts receivable, prepaid expenses and deposits, credit facilities, and accounts payable and accrued liabilities in the statements of financial position approximate fair value due to the short term nature of those instruments. These assets are not included in the following tables.

March 31, 2011	Carrying Amount	Fair Value	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets					
Investments	9	9	-	9	-
December 31, 2010					
Financial assets					
Investments	79	79	-	79	-

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 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 March 31, 2011 of \$1.31 per share, an unrealized loss was recognized for the period on the revaluation of warrants at March 31, 2011.

15. FINANCIAL RISK MANAGEMENT

The Company's activities expose it to a variety of financial risks that arise as a result of its exploration, development, production, and financing activities. 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.

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. The Company may use financial derivatives or physical delivery sales contracts to manage market risks. All such transactions are conducted within risk management tolerances that are reviewed by the Board of Directors.

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 US 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. Assuming that all other variables remain constant, a \$0.01 increase or decrease in the Canadian/US dollar exchange rate would have impacted net loss and other comprehensive loss by approximately \$0.1 million for the three months ended March 31, 2011 (2010 - \$0.1 million).

Interest rate risk

The Company is exposed to interest rate risk as it borrows funds at floating interest rates (note 8). 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 loss and other comprehensive loss by approximately \$0.1 million for the three months ended March 31, 2011 (2010 - \$0.1 million).

Commodity price risk

Oil and natural gas prices are impacted by not only the relationship between the Canadian and US dollar but also by world economic events that dictate the levels of supply and demand. The Company's oil, natural gas, and NGLs production is marketed and sold on the spot market to area aggregators based on daily spot prices that are adjusted for product quality and transportation costs. The Company's cash flow from product sales will therefore be impacted by fluctuations in commodity prices. A \$1.00/boe increase or decrease in commodity prices would have impacted net loss and other comprehensive loss by approximately \$0.1 million for the three months ended March 31, 2011 (2010 - \$0.1 million).

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 statement of financial position. At March 31, 2011, there are no material financial assets that the Company considers impaired.

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 March 31, 2011:

	Carrying Amount	Contractual Cash Flows	Less than One Year	One to Two Years	More than Two Years
Non-derivative financial liabilities					
Accounts payable and accrued liabilities	14,703	14,703	14,703	-	-
Revolving credit facility	11,164	11,164	11,164	-	-
	25,867	25,867	25,867	-	-

16. CAPITAL MANAGEMENT

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 excluding the current portion of decommissioning obligations, less current assets, excluding property, plant, and equipment, held for sale). To maintain or adjust the capital structure, the Company may, from time to time, issue shares, raise debt, or adjust its capital spending to manage its current and projected debt levels.

	March 31, 2011	December 31, 2010
Shareholders' equity	154,108	124,113
Net debt	17,610	35,200

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 March 31, 2011.

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

17. SUPPLEMENTAL CASH FLOW INFORMATION

	Three months ended March 31	
	2011	2010
Accounts receivable	2,785	(807)
Prepaid expenses and deposits	4	12
Accounts payable and accrued liabilities	3,773	2,099
Change in non-cash working capital	6,562	1,304
Relating to:		
Investing	6,233	1,915
Operating	329	(611)
Change in non-cash working capital	6,562	1,304

18. TRANSITION TO IFRS

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

The adjustments arising from the application of IFRS to amounts on the statement of financial position on the transition date and on transactions prior to that date were recognized as an adjustment to the Company's opening deficit on the statement of financial position when appropriate.

On transition to IFRS on January 1, 2010, the Company used certain exemptions allowed under IFRS 1, *First Time Adoption of International Reporting Standards*. The exemptions used were as follows:

Full cost accounting

IFRS 1 allows an entity that used full cost accounting under its previous GAAP to elect, at the time of adoption of IFRS, to measure oil and natural gas assets in the development and production phases by allocating the amount determined under the entity's previous GAAP for those assets to the underlying assets on a pro rata basis using reserve volumes or reserve values as of that date. The Company has used reserve values at January 1, 2010 to allocate the cost of development and production assets to CGUs.

Business combinations

IFRS 1 allows an entity to use the IFRS rules for business combinations on a prospective basis rather than restating all business combinations prior to transition to IFRS that were accounted for under previous GAAP.

Share based compensation

IFRS 1 allows an entity an exemption on IFRS 2, *Share-Based Payments*, with respect to equity instruments which vested before the transition date to IFRS.

Decommissioning obligations

As the Company elected to use the full cost accounting exemption for oil and gas, a decommissioning obligation exemption was also used that allows for the adjustment of decommissioning obligations on transition to IFRS to be offset to the Company's opening deficit on the statement of financial position on the transition date.

IFRS Opening Statement of Financial Position - As at January 1, 2010

(\$000s)	Note	Previous GAAP	Effect of Transition to IFRS	IFRS
Assets				
Current assets				
Cash and cash equivalents		1,854	-	1,854
Accounts receivable		5,042	-	5,042
Prepaid expenses and deposits		1,443	-	1,443
Property, plant, and equipment, held for sale	(a)	-	21,880	21,880
		8,339	21,880	30,219
Property, plant, and equipment	(a,b)	245,562	(94,119)	151,443
Exploration and evaluation assets	(a)	-	36,398	36,398
Deferred income taxes	(g)	255	5,160	5,415
		245,817	(52,561)	193,256
		254,156	(30,681)	223,475
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities		6,397	-	6,397
Revolving credit facility		52,355	-	52,355
Secured bridge facility		20,243	-	20,243
Risk management contracts		1,042	-	1,042
Decommissioning obligations, held for sale	(c)	-	1,705	1,705
		80,037	1,705	81,742
Decommissioning obligations	(c)	10,084	3,324	13,408
		90,121	5,029	95,150
Shareholders' Equity				
Shareholders' capital	(k)	166,632	1,406	168,038
Contributed surplus	(d)	3,714	811	4,525
Deficit	(b,c,d,g)	(6,311)	(37,927)	(44,238)
		164,035	(35,710)	128,325
		254,156	(30,681)	223,475

IFRS Statement of Financial Position - As at March 31, 2010

(\$000s)	Note	Previous GAAP	Effect of Transition to IFRS	IFRS
Assets				
Current assets				
Cash and cash equivalents		327	-	327
Accounts receivable		5,849	-	5,849
Prepaid expenses and deposits		1,431	-	1,431
Property, plant, and equipment, held for sale	(a)	-	1,886	1,886
		7,607	1,886	9,493
Property, plant, and equipment	(a,b)	225,930	(75,614)	150,316
Exploration and evaluation assets	(a,b)	-	36,336	36,336
Deferred income taxes	(g)	481	4,934	5,415
		226,411	(34,344)	192,067
		234,018	(32,458)	201,560
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities		8,496	-	8,496
Revolving credit facility		51,929	-	51,929
Risk management contracts		218	-	218
Decommissioning obligations, held for sale	(c)	-	1,064	1,064
		60,643	1,064	61,707
Decommissioning obligations	(c)	9,806	3,961	13,767
		70,449	5,025	75,474
Shareholders' Equity				
Shareholders' capital	(k)	166,703	1,406	168,109
Contributed surplus	(d)	4,039	742	4,781
Deficit	(b,c,d,e,f,g)	(7,173)	(39,631)	(46,804)
		163,569	(37,483)	126,086
		234,018	(32,458)	201,560

IFRS Statement of Financial Position - As at December 31, 2010

(\$000s)	Note	Previous GAAP	Effect of Transition to IFRS	IFRS
Assets				
Current assets				
Cash and cash equivalents		10,159	-	10,159
Accounts receivable		878	-	878
Prepaid expenses and deposits		79	-	79
Property, plant, and equipment, held for sale	(a)	-	2,020	2,020
		11,116	2,020	13,136
Property, plant, and equipment	(a,b)	201,018	(66,103)	134,915
Exploration and evaluation assets	(a,b)	-	31,405	31,405
Deferred income taxes	(g)	1,682	4,390	6,072
		202,700	(30,308)	172,392
		213,816	(28,288)	185,528
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities		10,930	-	10,930
Revolving credit facility		35,386	-	35,386
Decommissioning obligations, held for sale	(c)	-	1,064	1,064
		46,316	1,064	47,380
Decommissioning obligations	(c)	9,533	4,502	14,035
		55,849	5,566	61,415
Shareholders' Equity				
Shareholders' capital	(k)	166,758	1,406	168,164
Contributed surplus	(d)	4,934	581	5,515
Deficit	(b,c,d,e,f,g)	(13,725)	(35,841)	(49,566)
		157,967	(33,854)	124,113
		213,816	(28,288)	185,528

IFRS Statement of Operations and Comprehensive Loss - Three Months Ended March 31, 2010

(\$000s, except per share amounts)	Note	Previous GAAP	Effect of Transition to IFRS	IFRS
Revenue				
Oil and natural gas sales		10,962	-	10,962
Royalties		(2,267)	-	(2,267)
		8,695	-	8,695
Realized loss on risk management contracts		(360)	-	(360)
Unrealized gain on risk management contracts		824	-	824
		9,159	-	9,159
Expenses				
Production		1,986	-	1,986
Transportation		288	-	288
Depletion and depreciation	(c,e)	5,756	(2,269)	3,487
Asset impairment	(b)	-	3,424	3,424
General and administrative	(j)	992	116	1,108
Share based compensation	(d)	295	(38)	257
Interest	(h)	949	(949)	-
		10,266	284	10,550
Operating loss		(1,107)	(284)	(1,391)
Other Expenses (Income)				
Finance expense	(c,h)	-	1,158	1,158
Finance income	(h)	-	(69)	(69)
Loss on sale of assets	(f)	-	86	86
		-	1,175	1,175
Loss before taxes		(1,107)	(1,459)	(2,566)
Taxes				
Deferred income tax reduction	(g)	(245)	245	-
Net loss and comprehensive loss		(862)	(1,704)	(2,566)

IFRS Statement of Operations and Comprehensive Loss - Year Ended December 31, 2010

(\$000s, except per share amounts)	Note	Previous GAAP	Effect of Transition to IFRS	IFRS
Revenue				
Oil and natural gas sales		34,530	-	34,530
Royalties		(5,397)	-	(5,397)
		29,133	-	29,133
Realized loss on risk management contracts		(628)	-	(628)
Unrealized gain on risk management contracts		1,042	-	1,042
		29,547	-	29,547
Expenses				
Production	(i)	8,483	(280)	8,203
Transportation		1,026	-	1,026
Depletion and depreciation	(c,e)	23,024	(9,925)	13,099
Asset impairment	(b)	-	7,143	7,143
General and administrative	(j)	3,257	360	3,617
Share based compensation	(d)	1,086	(141)	945
Interest	(h)	2,494	(2,494)	-
Unrealized loss on investments	(h)	88	(88)	-
		39,458	(5,425)	34,033
Operating loss		(9,911)	5,425	(4,486)
Other Expenses (Income)				
Finance expense	(c,h)	-	3,436	3,436
Finance income	(h)	-	(1,361)	(1,361)
Other income	(h)	(1,009)	1,009	-
Gain on sale of assets	(f)	-	(576)	(576)
		(1,009)	2,508	1,499
Loss before taxes		(8,902)	2,917	(5,985)
Taxes				
Deferred income tax reduction	(g)	1,488	(831)	657
Net loss and comprehensive loss		(7,414)	2,086	(5,328)

Notes to reconciliations

(a) IFRS 1 election for full cost oil and gas entities

The Company elected to use an IFRS 1 exemption whereby the previous GAAP full cost oil and gas pool was used to measure exploration and evaluation assets and development and production assets on transition to IFRS as follows:

- (i) exploration and evaluation assets were reclassified from the full cost pool to intangible exploration assets at the amount that was recorded under previous GAAP
- (ii) the remaining full cost pool was allocated to development and production assets and components pro rata using reserve values

This resulted in a transfer of \$36.4 million to exploration and evaluation assets and a corresponding decrease to property, plant, and equipment on transition to IFRS.

In addition, on transition to IFRS the Company reclassified \$21.9 million of property, plant, and equipment to property, plant, and equipment, held for sale, consisting of certain oil and natural gas assets located in Niton, Alberta and Saskatchewan.

(b) Impairment of property, plant, and equipment and exploration and evaluation assets

In accordance with IFRS, impairment tests of property, plant, and equipment must be performed at the CGU level as opposed to the entire property, plant, and equipment balance which was required under previous GAAP through the full cost ceiling test. An impairment is recognized if the carrying value exceeds the recoverable amount for a CGU. For the Company, the recoverable amount is determined using fair value less costs to sell based on discounted future cash flows of proved plus probable reserves using forecast prices and costs. Property, plant, and equipment impairments can be reversed in future periods if the recoverable amount increases.

Upon transition to IFRS on January 1, 2010, the Company recognized an impairment of \$35.8 million relating to various CGUs. For the first quarter of 2010, as a result of continued decreases in natural gas commodity prices, the Company recognized an impairment of \$2.7 million, relating to Smoky AB and Miscellaneous AB CGUs. For the year ended December 31, 2010, the Company recognized net impairments of \$4.7 million, comprised of impairments of \$5.8 million, relating to Lookout Butte AB, Ferrier AB, and Miscellaneous AB CGUs and impairment reversals of \$1.1 million, relating to Smoky AB. Impairment reversals were made during the fourth quarter of 2010 mainly as a result of successful capital activity which led to an increase in proved plus probable reserves.

Exploration and evaluation assets are assessed for impairment when they are reclassified to property, plant, and equipment or if facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For the three months ended March 31, 2010, the Company recognized an impairment of \$0.7 million on exploration and evaluation assets resulting from the expiry of undeveloped land during the period. For the year ended December 31, 2010, the Company recognized impairments of \$2.4 million due to the expiry of undeveloped land rights.

(c) Decommissioning obligations

Under previous GAAP, decommissioning obligations were discounted at a credit adjusted risk free rate of seven percent. Under IFRS, the estimated cash flows to abandon and reclaim the wells and facilities has been risk adjusted, therefore the provision is discounted at the risk free rate in effect at the end of each reporting period. The change in the decommissioning obligations each period as a result of changes in the discount rate will result in an offsetting charge to property, plant, and equipment. Upon transition to IFRS, the impact of this change was a \$5.0 million increase in the decommissioning obligations with a corresponding increase to the deficit in the statement of financial position. Of this increase, \$1.7 million related to property, plant, and equipment reclassified to property, plant, and equipment, held for sale upon transition to IFRS (see note (a) above). As at December 31, 2010 the decommissioning obligations were \$5.6 million higher than under previous GAAP due to the change in discount rate and its impact on the liabilities incurred or acquired during 2010.

As a result of the change in the discount rate, the decommissioning obligation accretion expense decreased by \$0.1 million during the three months ended March 31, 2010 and \$0.2 million during the year ended December 31, 2010 as the lower discount rate more than offset the impact of the higher obligation. In addition, under previous GAAP accretion of the discount was included in depletion and depreciation expense. Under IFRS, accretion is included in finance expenses.

(d) Share based compensation

Under previous GAAP, the Company recognized an expense related to share based compensation on a straight-line basis through the date of full vesting and did not incorporate a forfeiture rate at the grant date. Under IFRS, the Company is required to recognize the expense over the individual vesting periods for the graded vesting awards and estimate a forfeiture rate at the date of grant and update it throughout the vesting period. The impact on transition was an increase to contributed surplus of \$0.8 million with an offsetting increase to the opening deficit.

(e) Depletion and depreciation

Upon transition to IFRS, the Company adopted a policy of depleting oil and natural gas interests on a unit of production basis over proved plus probable reserves. The depletion policy under previous GAAP was based on a unit of production method over proved reserves. In addition, depletion was calculated on the full cost pool under previous GAAP. IFRS requires depletion and depreciation to be calculated based on CGUs and separate components of property, plant, and equipment. There was no impact of this difference on adoption of IFRS at January 1, 2010 as a result of the IFRS 1 election as discussed in note (a) above.

For the three months ended March 31, 2010, depleting the oil and natural gas interests over proved plus probable reserves resulted in a decrease to depletion and depreciation of \$2.2 million. For the year ended December 31, 2010, depletion and depreciation decreased by \$9.3 million as a result of the change in the depletion calculation.

(f) Gains and losses on dispositions

Under previous GAAP, proceeds from dispositions were deducted from the full cost pool without recognition of a gain or loss unless the deduction resulted in a change in the depletion rate of 20 percent or greater. Under IFRS, gains and losses are recorded on dispositions and are calculated as the difference between the proceeds on disposition and the net book value of the assets disposed. For the three months ended March 31, 2011, the Company recognized a \$0.1 million loss on dispositions compared to \$nil under previous GAAP. For the year ended December 31, 2010, the Company recognized a \$0.6 million gain on dispositions under IFRS compared to \$nil under previous GAAP.

(g) Deferred income taxes

Under IFRS there is no requirement to separate the portion of deferred income taxes related to current assets or liabilities. Adjustments to deferred income taxes have been made in regards to the adjustments noted above that resulted in a change to the temporary difference between tax values and accounting values. Deferred income tax assets are only recognized to the extent that it is probable that future taxable profits will be available against which unused tax losses and unused tax credits can be utilized.

(h) Finance expenses and finance income

Under IFRS, separate line items are required in the statement of operations and comprehensive income for finance expenses and finance income. The items under previous GAAP that were reclassified to finance expenses were interest expense, accretion of decommissioning obligations, and unrealized losses on investments. The items under previous GAAP that were reclassified to finance income were interest income and other income.

(i) Major turnaround and overhaul expenses

Under IFRS, the Company capitalizes the cost of major plant turnarounds and overhauls and depreciates these costs over their useful life. Previously these costs were charged to operating expenses.

(j) General and administrative expenses

Under IFRS, only directly attributable costs can be capitalized to property, plant, and equipment.

(k) Flow-through shares

Under previous GAAP, the deferred tax impact on renouncement of flow-through shares was recorded against shareholders' capital. Under IFRS, a premium liability is recorded on the issuance of flow-through shares, which is relieved upon renouncement, with the difference recognized as deferred tax expense.