# Press Release

## 2006 Financial and Operating Results

**FOR IMMEDIATE RELEASE –** April 26, 2007

**CROCOTTA ENERGY INC.** is pleased to announce its financial and operating results for the 10-month period ended December 31, 2006, including audited consolidated financial statements, notes to the audited consolidated financial statements, and Management's Discussion and Analysis. All dollar figures are Canadian dollars unless otherwise noted.

**HIGHLIGHTS**

- Commenced active oil and natural gas operations on November 15, 2006 as a result of the acquisition of certain oil and natural gas properties for approximately $6.6 million. The producing oil and natural gas properties were located in West Central and Southern Alberta and were producing approximately 100 boe/d at the time of closing of the transaction.

- Raised approximately $22.9 million through the issuance of approximately 22.8 million shares on a private placement basis. In conjunction with the private placement, Crocotta entered into a put and call obligation agreement to issue approximately 6.1 million common shares for proceeds of approximately $6.1 million.

- Appointed a new Board of Directors and Management Team in November consisting of the former officers and directors of Chamaelo Exploration Ltd.

- Subsequent to year-end, Crocotta announced a business combination by way of plan of arrangement with Eastshore Energy Ltd. ("Eastshore"). Eastshore has oil and natural gas assets located in West Central Alberta that currently produce approximately 540 boe/d with a value of approximately $33.9 million. In conjunction with the arrangement, Crocotta entered into a financing arrangement to issue 7.2 million common shares for proceeds of $9.0 million, with an option to issue up to an additional 8.0 million common shares for proceeds of $10.0 million. Crocotta entered into a second financing arrangement to issue approximately 3.2 million special warrants, convertible into flow-through common shares, for proceeds of approximately $5.0 million.

| **FINANCIAL** [(1)] | | **Period Ended December 31, 2006** |
|---|---|---|
| ($, except where noted) | | |
| **Oil and natural gas sales** | | **290,243** |
| **Funds from operations** | | **(194,807)** |
| per share - basic and diluted | | **(0.05)** |
| **Net loss** | | **(436,321)** |
| per share - basic and diluted | | **(0.12)** |
| **Capital expenditures** | | **2,420,396** |
| **Property acquisition** | | **6,556,099** |
| **Corporate acquisition** | | **504,001** |
| **Net cash and working capital** | | **13,469,677** |
| **Common shares outstanding** | | |
| weighted average - basic and diluted | | **3,643,949** |
| end of period | - basic | **23,940,001** |
| | - diluted | **30,050,001** |

(1) There are no comparative numbers as the Company began active oil and natural gas operations on November 15, 2006. Results from oil and natural gas activities take into account only the 47-day period from November 15, 2006 to December 31, 2006. The Company changed its fiscal year-end to December 31 from February 28, effective December 31, 2006.

| OPERATING [1] | Period Ended December 31, 2006 |
|---|---|
| **Number of producing days** | **47** |
| **Daily production** | |
| Oil and liquids - (bbls/d) | **52** |
| Natural gas - (mcf/d) | **331** |
| Oil equivalent - (boe/d @ 6:1) | **107** |
| **Revenue, net of transportation** | |
| Oil and liquids - ($/bbl) | **66.28** |
| Natural gas - ($/mcf) | **7.94** |
| Oil equivalent - ($/boe @ 6:1) | **56.67** |
| **Royalties** | |
| Oil and liquids - ($/bbl) | **2.89** |
| Natural gas - ($/mcf) | **1.43** |
| Oil equivalent - ($/boe @ 6:1) | **5.81** |
| **Production expenses** | |
| Oil and liquids - ($/bbl) | **13.37** |
| Natural gas - ($/mcf) | **1.63** |
| Oil equivalent - ($/boe @ 6:1) | **11.52** |
| **Operating netback** | |
| Oil and liquids - ($/bbl) | **50.02** |
| Natural gas - ($/mcf) | **4.88** |
| Oil equivalent - ($/boe @ 6:1) | **39.34** |

(1) There are no comparative numbers as the Company began active oil and natural gas operations on November 15, 2006. Results from oil and natural gas activities take into account only the 47-day period from November 15, 2006 to December 31, 2006. The Company changed its fiscal year-end to December 31 from February 28, effective December 31, 2006.

**Management's Discussion and Analysis**

April 23, 2007

Crocotta Energy Inc. ("Crocotta" or the "Company") is an emerging oil and natural gas company, actively engaged in the acquisition, development, exploration, and production of oil and natural gas reserves in Western Canada. Crocotta is not publicly listed or actively traded on any stock exchange.

On August 16, 2005, Donner Minerals Ltd., the predecessor to the Company, completed a reorganization, by way of statutory plan of arrangement, and restructured into two separate companies, Donner Metals Ltd. and Donner Minerals Ltd., which changed its name to Donner Petroleum Ltd. and subsequently to Crocotta Energy Inc. On November 14, 2006, the Company appointed a new board of directors and hired a new management team consisting of the previous directors and officers of Chamaelo Exploration Ltd. ("Chamaelo"). On November 15, 2006, the Corporation commenced active oil and natural gas operations with the acquisition of certain oil and natural gas properties from Chamaelo.

Effective December 31, 2006, the Company changed its fiscal year-end from February 28 to December 31. As a result, the consolidated financial statements for the period ended December 31, 2006 and the disclosure throughout the Management's Discussion and Analysis ("MD&A") reflect Crocotta's overall company results for the 10-month period from March 1, 2006 to December 31, 2006, with comparative results for the fiscal year ended February 28, 2006. **Results from active oil and natural gas operations take into account only the 47-day period from November 15, 2006 to December 31, 2006.**

The MD&A should be read in conjunction with the audited consolidated financial statements for the 10-month period ended December 31, 2006 and year ended February 28, 2006. The audited consolidated financial statements and financial data contained in the MD&A have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") in Canadian currency (except where noted as being in another currency).

**BOE Conversions**

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

**Forward-Looking Information**

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

**Non-GAAP Measures**

Funds from operations and operating netback as presented do not have any standardized meaning prescribed by Canadian GAAP and therefore may not be comparable to similar measures used by other companies. The determination of funds from operations is detailed on the Consolidated Statement of Cash Flows and is determined before changes in non-cash working capital. 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.

| **Summary of Financial Results** [1] | **Period ended December 31, 2006** |
|---|---|
| | **$** |
| **Oil and natural gas sales** | **290,243** |
| **Funds from operations** | **(194,807)** |
| per share - basic and diluted | **(0.05)** |
| **Net loss** | **(436,321)** |
| per share - basic and diluted | **(0.12)** |
| **Total assets** | **26,445,248** |
| **Net cash and working capital** | **13,469,677** |
| **Total long-term liabilities** | **173,173** |

(1) There are no comparative numbers as the Company began active oil and natural gas operations on November 15, 2006. Results from oil and natural gas activities take into account only the 47-day period from November 15, 2006 to December 31, 2006. The Company changed its fiscal year-end to December 31 from February 28, effective December 31, 2006.

### Production

| | **Period ended December 31, 2006** |
|---|---|
| Average Daily Production | |
| Oil and liquids (bbls/d) | 52 |
| Natural gas (mcf/d) | 331 |
| Total (boe/d) | 107 |

The reported oil and natural gas production reflects operating activities for the Company's first 47 days of active oil and natural gas operations from November 15, 2006 to December 31, 2006. On a combined basis, average daily production totaled 107 boe/d. Crude oil and natural gas liquids production averaged 52 bbls/d while natural gas production averaged 331 mcf/d for the 47-day period ended December 31, 2006.

### Revenue

| | **Period ended December 31, 2006** |
|---|---|
| | **$** |
| Oil and liquids | 164,408 |
| Natural gas | 125,835 |
| Total revenue | 290,243 |
| Transportation expenses | (4,571) |
| Total revenue, net of transportation | 285,672 |

| Average Sales Price | |
|---|---|
| Oil and liquids ($/bbl) | 67.27 |
| Natural gas ($/mcf) | 8.08 |
| Average sales price ($/boe) | 57.58 |
| Transportation expenses ($/boe) | (0.91) |
| Average sales price ($/boe), net of transportation | 56.67 |

Revenue totaled $290,243 for the period ended December 31, 2006. Currently, the Company sells all its oil, natural gas liquids, and natural gas on the spot market. Future prices received from the sale of oil, natural gas liquids, and natural gas may fluctuate as the result of market factors. The Company did not hedge any of its oil, natural gas liquids, or natural gas production for the period.

The following table outlines the Company's realized wellhead prices and industry benchmarks for the 47-day period from November 15, 2006 to December 31, 2006:

**Commodity Pricing**

| (average unless otherwise stated) | Period ended December 31, 2006 | |
|---|---|---|
| | **$US** | **$Cdn** |
| **Oil and liquids** | | |
| Corporate Price ($/bbl) | | 67.27 |
| West Texas Intermediate ($/bbl) | 61.08 | |
| Edmonton Par ($/bbl) | | 66.89 |
| **Natural gas** | | |
| Corporate Price ($/mcf) | | 8.08 |
| AECO Daily Spot Price ($/mcf) | | 7.29 |
| **Exchange Rate** | | |
| U.S./Cdn Dollar Average Exchange Rate | | 0.8717 |

Corporate average oil and natural gas liquids price was 100.6% of Edmonton Par price or a premium of $0.38 to Edmonton Par. Corporate average natural gas price was 110.8% of AECO Daily Spot price or a premium of $0.79 to AECO Daily Spot. A difference can be the result of quality (higher or lower API, higher or lower heat content), sour content, natural gas liquids included in reporting, and various other factors. Crocotta's differences are mainly as a result of higher quality oil and natural gas liquids production that are priced higher than Edmonton Par and higher heat content natural gas production that is priced higher than AECO Daily Spot. Note that these differences change on a monthly basis pending demand for each particular product.

**Transportation Expenses**

| | Period ended December 31, 2006 |
|---|---|
| Oil and liquids ($/bbl) | 0.99 |
| Natural gas ($/mcf) | 0.14 |
| Total ($/boe) | 0.91 |

Transportation expenses are third-party pipeline tariffs and trucking costs incurred to deliver the products to the purchasers at main hubs. The Company expects to have industry average transportation costs, as the current production and capital expenditure plans are located in West Central Alberta, Southern Alberta, and Northeast British Columbia.

**Royalties**

| | Period ended December 31, 2006 |
|---|---|
| | **$** |
| Oil and liquids | 7,051 |
| Natural gas | 22,239 |
| Total royalties | 29,290 |

| Average Royalty Rate (% of sales) | |
|---|---|
| Oil and liquids | 4.3 |
| Natural gas | 17.7 |
| Average royalty rate | 10.1 |

Crude oil, natural gas liquids, and natural gas royalties totaled $29,290 for the period ended December 31, 2006. The overall effective royalty rate was 10.1 percent of the Company's total revenue from the sale of crude oil, natural gas liquids, and natural gas. The low oil and natural gas liquids royalty rate is due to the Company's oil production currently being on a Crown royalty holiday that is expected to be used up in the first half of 2007, at which time the oil and natural gas liquids royalty rate will increase substantially.

**Production Expenses**

| | Period ended December 31, 2006 |
|---|---|
| Oil and liquids ($/bbl) | 13.37 |
| Natural gas ($/mcf) | 1.63 |
| Total ($/boe) | 11.52 |

Per unit production expenses for the period ended December 31, 2006 were $11.52/boe ($13.37/bbl of oil and natural gas liquids and $1.63/mcf of natural gas). During the period, the Company incurred one-time surface equipment repair costs of approximately $12,000 at one of its wells. Had these costs not been incurred, per unit production expenses would have decreased $2.33/boe to $9.19/boe. Crocotta recognizes that controlling operating costs plays an integral role in the effective exploitation of reserves typically found today in the Western Canadian Sedimentary Basin. Crocotta is committed to focusing efforts on opportunities that will improve operational efficiencies and reduce per boe production expenses to enhance netbacks.

**Operating Netback**

| | Period ended December 31, 2006 |
|---|---|
| **Oil and liquids ($/bbl)** | |
| Revenue | 67.27 |
| Royalties | 2.89 |
| Production expenses | 13.37 |
| Transportation expenses | 0.99 |
| Operating netback | 50.02 |
| **Natural gas ($/mcf)** | |
| Revenue | 8.08 |
| Royalties | 1.43 |
| Production expenses | 1.63 |
| Transportation expenses | 0.14 |
| Operating netback | 4.88 |
| **Combined ($/boe) (6:1)** | |
| Revenue | 57.58 |
| Royalties | 5.81 |
| Production expenses | 11.52 |
| Transportation expenses | 0.91 |
| Operating netback | 39.34 |

The operating netback is a key indicator of an exploration and production company's ability to generate cash flow for reinvestment. During the period ended December 31, 2006, Crocotta generated an operating netback of $39.34/boe.

**General and Administrative Expenses ("G&A")**

| | Period ended December 31, 2006 |
|---|---|
| | **$** |
| G&A expenses (gross) | 523,360 |
| G&A capitalized | (80,105) |
| G&A recoveries | (35,095) |
| G&A expenses (net) | 408,160 |
| G&A expenses ($/boe) | 80.98 |

G&A totaled $408,160 or $80.98/boe for the period ended December 31, 2006. The amount per boe is unusually high due to costs associated with the commencement of active oil and natural gas operations for only the 47-day period from November 15, 2006 to December 31, 2006. The Company expects per-unit G&A costs will decline significantly as production levels increase.

**Interest**

| | Period ended December 31, 2006 |
|---|---|
| | $ |
| Interest expense | 139,823 |
| Interest income | (44,110) |
| Interest expense (net) | 95,713 |
| Interest expense ($/boe) | 18.99 |

Net interest expense totaled $95,713 for the period ended December 31, 2006, or $18.99/boe. Interest expense related mainly to amounts incurred on the outstanding convertible debentures, which were converted to equity in December 2006. Interest income amounts related to interest earned on funds raised through the November and December 2006 private placement issuances. The Company expects to have net interest income in the first quarter of 2007.

**Depletion, Depreciation and Accretion ("DD&A")**

| | Period ended December 31, 2006 |
|---|---|
| DD&A ($) | 130,753 |
| DD&A ($/boe) | 25.94 |

The Company's DD&A expense totaled $130,753 for the period ended December 31, 2006 or $25.94/boe. During the period ended December 31, 2006, the provision for DD&A included $12,300 for depreciation of office and other equipment and $1,127 for accretion of asset retirement obligations.

**Taxes**

At December 31, 2006, the Company had approximately $30.5 million in tax pools, losses, and share issue costs, net of $2.5 million in flow-through commitments.

| | Period ended December 31, 2006 |
|---|---|
| | $ |
| Canadian oil and gas property expense (COGPE) | 5,075,583 |
| Canadian development expense (CDE) | 3,407,789 |
| Canadian exploration expense (CEE) | 13,182,075 |
| Undepreciated capital costs (UCC) | 1,467,836 |
| Non-capital losses carried forward | 3,750,737 |
| Capital losses carried forward | 3,416,617 |
| Share issue costs | 229,262 |
| Total pools, losses, and share issue costs | 30,529,899 |

**Funds from Operations and Net Earnings**

Funds from operations for the 10-month period ended December 31, 2006 was negative $194,807 ($0.05 per share) due to unusually high general and administrative costs associated with the commencement of active oil and natural gas operations for only the 47-day period from November 15, 2006 to December 31, 2006. Net loss for the period ended December 31, 2006 totaled $436,321 ($0.12 per share).

**Capital Expenditures**
On November 15, 2006, Crocotta acquired certain oil and natural gas properties for $6.6 million, prior to adjustments for net revenues and capital expenditures. Details of the property acquisition are as follows:

| **Net assets acquired** | **Amount ($)** |
|---|---|
| Oil and natural gas properties | 6,467,333 |
| Office and other equipment | 221,393 |
| Asset retirement obligation | (132,627) |
| | 6,556,099 |
| **Consideration of acquisition** | |
| Cash | 6,600,000 |
| Purchase price adjustment | (43,901) |
| | 6,556,099 |

On November 15, 2006, Crocotta also acquired all of the issued and outstanding shares of a private company, through the issuance of approximately 0.4 million common shares at a price of $1.20 per share. The private company's main asset was cash, which was subsequently used by the Company to shoot seismic data over certain of the properties acquired on November 15, 2006.

Net cash payments for capital expenditures are as follows:

| | **Period ended December 31, 2006** |
|---|---|
| | **$** |
| Property acquisition | 6,556,099 |
| Corporate acquisition | 504,001 |
| Land | 8,938 |
| Drilling, completions and workovers | 1,919,359 |
| Equipment | 19,556 |
| Geological and geophysical | 472,543 |
| | 9,480,496 |

During the period ended December 31, 2006 the company drilled 3 (1.7 net) wells resulting in 1 (0.30 net) oil well, 1 (1.0 net) possible oil well, and 1 (0.40 net) uneconomic well. The successful well is anticipated to be tied-in during the second quarter of 2007.

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

FD&A costs reflect the efficiency and value added by the Company's capital spending. While NI 51-101 requires that the effects of acquisitions and dispositions be excluded, Crocotta has included these items because it believes that acquisitions can have a significant impact on the Company's ongoing reserve replacement costs and that excluding these amounts could result in an inaccurate portrayal of Crocotta's cost structure. The Company's FD&A costs for the period ended December 31, 2006 are as follows:

| | Proved | Proved plus Probable |
|---|---|---|
| Reserve additions (mboe) (1) | 394,000 | 728,000 |
| Capital expenditures ($) | 2,420,396 | 2,420,396 |
| Property acquisition ($) | 6,556,099 | 6,556,099 |
| Corporate acquisition ($) | 504,001 | 504,001 |
| Total, excluding future capital ($) | 9,480,496 | 9,480,496 |
| Future capital costs ($) (2) | 1,983,000 | 3,051,000 |
| Total, including future capital ($) | 11,463,496 | 12,531,496 |
| FD&A costs, excluding future capital costs ($/boe) | 24.06 | 13.02 |
| FD&A costs, including future capital costs ($/boe) | 29.10 | 17.21 |

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

(2) Future development capital expenditures required to recover reserves estimated by GLJ. The aggregate of the exploration and development costs incurred in the most recent financial period and the change during that period in estimated future development costs generally will not reflect total finding and development costs related to reserve additions for that period.

### Liquidity and Capital Resources

Net cash and working capital was $13,469,677 at December 31, 2006.

Subsequent to December 31, 2006, the Company's outstanding common shares were consolidated on a 13.5135 to 1 basis. During November 2006, Crocotta issued, by way of private placement, approximately 22.8 million shares, on a post-consolidation basis, for proceeds of approximately $22.9 million. Of the 22.8 million shares issued, 1.5 million shares were issued on a flow-through basis at a price of $1.00 per share and approximately 0.4 million shares were issued on a flow-through basis at a price of $1.20 per share. The Company has an additional $0.5 million flow-through commitment that it acquired upon the acquisition of all of the issued and outstanding shares of a private company on November 15, 2006. The private company's main asset was cash, which was subsequently used to shoot seismic lines over certain of the properties acquired on November 15, 2006. At December 31, 2006, approximately $2.1 million of the total outstanding flow-through commitment of $2.5 million had been spent by the Company. The remaining flow-through commitment of $0.4 million was spent subsequent to year-end.

Furthermore, in conjunction with the private placement, Crocotta entered into a put and call obligation agreement to issue approximately 6.1 million additional common shares at $1.00 per share, on a post-consolidation basis, for proceeds of approximately $6.1 million. On February 6, 2007, approximately 6.1 million series I special voting shares were issued in respect of the outstanding put and call obligation, which special voting shares will be cancelled upon exercise of the outstanding put and call obligation. The put and call obligation remains unexercised as of the date of this MD&A.

On April 18, 2007, the Company announced that it entered into an arrangement ("Arrangement") whereby it will combine with Eastshore Energy Ltd. ("Eastshore"), a public oil and natural gas company listed on the TSX Venture Exchange. Eastshore has oil and natural gas assets located in West Central Alberta with a value of approximately $33.9 million. The Arrangement is expected to close in early June 2007.

Crocotta entered into a financing arrangement to issue 7.2 million common shares priced at $1.25 per share for proceeds of $9.0 million, contingent on the closing of the Arrangement. In conjunction with this offering, Crocotta will have an option to issue up to an additional 8.0 million common shares priced at $1.25 per share for a period of 10 business days after closing of the Arrangement.

Crocotta entered into a second financing arrangement to issue special warrants. Subject to certain conditions, the special warrants will be converted to approximately 3.2 million flow-through common shares, priced at $1.55 per share for proceeds of approximately $5.0 million.

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

| **Summary of Quarterly Results** (1) | **Period ended December 31, 2006** |
|---|---|
| Number of producing days | 47 |
| | **$** |
| Oil and natural gas sales | 290,243 |
| Funds from operations | (194,807) |
| per share - basic and diluted | (0.05) |
| Net loss | (436,321) |
| per share - basic and diluted | (0.12) |

(1) There are not eight quarters of information as the Company began active oil and natural gas operations on November 15, 2006. Results from oil and natural gas activities take into account only the 47-day period from November 15, 2006 to December 31, 2006. The Company changed its fiscal year-end to December 31 from February 28, effective December 31, 2006.

### Fourth Quarter 2006

As the Company commenced active oil and natural gas operations on November 15, 2006, fourth quarter results from oil and natural gas operations reflect only the 47-day period from November 15, 2006 to December 31, 2006, as detailed previously in the MD&A.

### 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 and Class B preferred shares, issuable in series, and special voting shares, issuable in series. The voting common shares of the Company are not publicly listed or actively traded on any stock exchange. The following table summarizes the common shares outstanding and the number of shares exercisable into common shares from options, warrants, and other instruments:

| | **December 31, 2006** | **April 23, 2007** |
|---|---|---|
| Voting common shares | 23,940,001 | 23,940,001 |
| Series I special voting shares (put and call obligation) | 6,110,000 | 6,110,000 |
| Options | - | 2,685,000 |
| Warrants | - | 6,725,000 |
| Total | 30,050,001 | 39,460,001 |

### Commitments

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

| | **Amount ($)** |
|---|---|
| 2007 | 586,661 |
| 2008 | 586,661 |
| 2009 | 586,661 |
| 2010 | 586,661 |
| 2011 | 488,884 |
| | 2,835,528 |

## Critical Accounting Policies and Significant Estimates

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

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

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

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

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

## New Accounting Standards

*Financial Instruments* – In 2005, the Canadian Institute of Chartered Accountants issued the new Handbook Section 3855, *Financial Instruments – Recognition and Measurement*, effective for fiscal periods beginning on or after October 1, 2006. This new section prescribes when a financial instrument is to be recognized on the balance sheet and at what amount, being either fair value or cost-based measures. The section also specifies how financial instrument gains and loses are to be presented and defines financial instruments to include accounts receivable, accounts payable, loans, investments in debt and equity securities, and derivative contracts. The Company has not assessed the impact of this new section on the consolidated financial statements of future periods.

*Comprehensive Income and Equity* – In 2005, the Canadian Institute of Chartered Accountants issued the new Handbook Section 1530, *Comprehensive Income* and Section 3251, *Equity*, effective for fiscal periods beginning on or after October 1, 2006. Section 1530 establishes standards for reporting comprehensive income. The section does not address issues of recognition or measurement of comprehensive income or its components. Section 3251 establishes standards for the presentation of equity during the reporting period. The requirements in Section 3251 are in addition to the requirements in Section 1530. The Company has not assessed the impact of this new section on the consolidated financial statements of future periods.

*Hedges* – In 2005, the Canadian Institute of Chartered Accountants issued the new Handbook Section 3865, *Hedges*, effective for fiscal periods beginning on or after October 1, 2006. This new section establishes standards for when and how hedge accounting may be applied. Currently, the Company does not have any hedges in place. The Company will continue to assess the impact of this new section on future transactions.

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

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

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

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

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

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

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

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

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

Internal controls over financial reporting have been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP.

During the period ended December 31, 2006, there was a material change in the Company's internal controls over financial reporting that has affected the Company's internal controls over financial reporting. On November 14, 2006, the Company appointed a new board of directors and hired a new management team consisting of the previous directors and officers of Chamaelo. On November 15, 2006, the Corporation commenced active oil and natural gas operations with the acquisition of certain oil and natural gas properties. With the new corporate structure and commencement of active oil and natural gas operations, all new internal controls over financial reporting were designed by (or designed under the supervision of) the CEO and CFO.

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.

Additional information related to the Company, including the Annual Information Form (AIF), may be found on the SEDAR website at www.sedar.com.

**Management's Report**

**To the Shareholders of Crocotta Energy Inc.**

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

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

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

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

signed "Rob Zakresky"

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

signed "Nolan Chicoine"

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

Calgary, Canada
April 23, 2007

**Auditors' Report**

**To the Shareholders of Crocotta Energy Inc.**

We have audited the consolidated balance sheet of Crocotta Energy Inc. as at December 31, 2006 and February 28, 2006 and the consolidated statements of operations and deficit and cash flows for the period from March 1, 2006 to December 31, 2006 and the year ended February 28, 2006. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2006 and February 28, 2006 and the results of its operations and its cash flows for the period from March 1, 2006 to December 31, 2006 and the year ended February 28, 2006 in accordance with Canadian generally accepted accounting principles.

signed "KPMG LLP"

Chartered Accountants

Calgary, Canada
April 23, 2007

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

| | **As at December 31, 2006** | As at February 28, 2006 |
|---|---|---|
| | **$** | $ |
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | **15,847,815** | 41,558 |
| Accounts receivable | **965,233** | 364 |
| Prepaid expenses and deposits | **109,284** | - |
| | **16,922,332** | 41,922 |
| Oil and natural gas properties and equipment (note 3) | **9,522,916** | - |
| Deferred financing costs (note 6) | **-** | 56,210 |
| | **26,445,248** | 98,132 |
| **Liabilities and Shareholders' Equity** | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | **3,452,655** | 138,584 |
| Loan payable | **-** | 75,000 |
| | **3,452,655** | 213,584 |
| Asset retirement obligations (note 4) | **173,173** | - |
| Convertible debentures (note 6) | **-** | 416,780 |
| Shareholders' equity: | | |
| Capital stock (note 7) | **24,224,491** | 203,488 |
| Equity component of convertible debentures (note 6) | **-** | 233,030 |
| Deficit | **(1,405,071)** | (968,750) |
| | **22,819,420** | (532,232) |
| Subsequent events (notes 7 and 12) | | |
| Commitments (note 11) | | |
| | **26,445,248** | 98,132 |

See accompanying notes to the consolidated financial statements

Approved by the Board of Directors:

Director, "signed" Rob Zakresky

Director, "signed" Larry Moeller

**Crocotta Energy Inc.**

**Consolidated Statements of Operations and Deficit**

| | **Ten months ended December 31, 2006** | Year ended February 28, 2006 |
|---|---|---|
| | **$** | $ |
| **Revenue:** | | |
| Oil and natural gas sales | **290,243** | - |
| Transportation expense | **(4,571)** | - |
| Royalties | **(29,290)** | - |
| | **256,382** | - |
| **Expenses:** | | |
| Production | **58,077** | - |
| General and administrative | **408,160** | 125,201 |
| Interest | **95,713** | 68,668 |
| Depletion, depreciation and accretion | **130,753** | - |
| | **692,703** | 193,869 |
| Net loss from continuing operations | **(436,321)** | (193,869) |
| Net earnings from discontinued operations (note 8) | **-** | 98,213 |
| Net loss | **(436,321)** | (95,656) |
| Deficit, beginning of period | **(968,750)** | (873,094) |
| Deficit, end of period | **(1,405,071)** | (968,750) |
| Net loss per share from continuing operations: | | |
| Basic and diluted | **(0.12)** | (0.76) |
| Net loss per share: | | |
| Basic and diluted | **(0.12)** | (0.37) |

See accompanying notes to the consolidated financial statements

**Crocotta Energy Inc.**

**Consolidated Statements of Cash Flows**

| | **Ten months ended December 31, 2006** | Year ended February 28, 2006 |
|---|---|---|
| | **$** | $ |
| **Cash provided by (used in):** | | |
| **Operating:** | | |
| Net loss | **(436,321)** | (95,656) |
| Less: Net earnings from discontinued operations (note 8) | **-** | (98,213) |
| Net loss from continuing operations | **(436,321)** | (193,869) |
| Items not affecting cash: | | |
| Depletion, depreciation and accretion | **130,753** | - |
| Accretion of convertible debentures | **54,551** | 41,470 |
| Amortization of deferred financing costs | **56,210** | 6,860 |
| Funds from continuing operations | **(194,807)** | (145,539) |
| Net change in non-cash working capital from continuing operations (note 10) | **(541,501)** | 213,220 |
| | **(736,308)** | 67,681 |
| Net change in non-cash working capital from discontinued operations (note 8) | **-** | (297,669) |
| | **(736,308)** | (229,988) |
| **Financing:** | | |
| Issuance of capital stock | **23,392,571** | 203,487 |
| Share issue costs | **(75,929)** | - |
| Issuance of convertible debentures | **-** | 545,270 |
| | **23,316,642** | 748,757 |
| **Investing:** | | |
| Purchase and development of oil and natural gas properties and equipment | **(9,480,496)** | - |
| Net change in non-cash investing working capital from continuing operations (note 10) | **2,706,419** | - |
| Net change in non-cash investing working capital from discontinued operations (note 8) | **-** | (979,273) |
| | **(6,774,077)** | (979,273) |
| Change in cash and cash equivalents | **15,806,257** | (460,504) |
| Cash and cash equivalents, beginning of period | **41,558** | 502,062 |
| Cash and cash equivalents, end of period | **15,847,815** | 41,558 |

See accompanying notes to the consolidated financial statements

## 1. SIGNIFICANT ACCOUNTING POLICIES

### a) Basis of presentation

On August 16, 2005, Donner Minerals Ltd. (“Donner”), the predecessor to Crocotta Energy Inc. (“Crocotta” or the “Company”), completed a reorganization, by way of statutory plan of arrangement, and restructured into two separate companies, Donner Metals Ltd. and Donner, which changed its name to Donner Petroleum Ltd., and subsequently to Crocotta Energy Inc. On November 15, 2006, the Company commenced active oil and natural gas operations with the acquisition of certain oil and natural gas properties from Chamaelo Exploration Ltd. (“Chamaelo”).

Effective December 31, 2006, the Company changed its fiscal year-end from February 28 to December 31. As a result, the consolidated financial statements prepared are as at and for the 10-month period ended December 31, 2006, with comparative amounts as at and for the year ended February 28, 2006.

The Company is not publicly listed or actively traded on any stock exchange. The Company is engaged in the acquisition, development, exploration, and production of oil and natural gas reserves in Western Canada.

These consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada and include the accounts of the Company and its wholly owned subsidiary.

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

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

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

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

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

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

### c) Office and other equipment

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

**d) Asset retirement obligations ("ARO")**

The Company recognizes the liability associated with future site reclamation costs in the consolidated financial statements at the time when the liability is incurred. ARO obligations are initially measured at fair value and subsequently adjusted for the accretion of discount and any changes to the underlying cash flows. The asset retirement cost is capitalized to oil and natural gas properties and equipment and amortized into earnings on a basis consistent with depletion and depreciation. Actual costs incurred upon settlement of the obligations are charged against the liability.

**e) Use of estimates**

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

**f) Revenue recognition**

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

**g) Cash and cash equivalents**

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

**h) Income taxes**

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

**i) Per share information**

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

**j) Comparative figures**

Certain prior year figures have been reclassified to conform to the current year's presentation (see notes 7 and 8).

## 2. ACQUISITIONS

### a) Property acquisition:

On November 15, 2006, Crocotta acquired certain oil and natural gas properties for $6.6 million, prior to adjustments for net revenues and capital expenditures. The following table details the allocation of the purchase price, which is subject to final adjustments:

| **Net assets acquired** | **Amount ($)** |
|---|---|
| Oil and natural gas properties | 6,467,333 |
| Office and other equipment | 221,393 |
| Asset retirement obligation | (132,627) |
| | 6,556,099 |
| **Consideration of acquisition** | |
| Cash | 6,600,000 |
| Purchase price adjustment | (43,901) |
| | 6,556,099 |

### b) Corporate acquisition:

On November 15, 2006, the Company acquired all of the issued and outstanding shares of a private company, through the issuance of approximately 0.4 million common shares at a price of $1.20 per share. The private company's main asset was cash, which was subsequently used by the Company to shoot seismic data over certain of the properties acquired on November 15, 2006.

## 3. OIL AND NATURAL GAS PROPERTIES AND EQUIPMENT

| | **Cost** | **Accumulated Depletion and Depreciation** | **Net Book Value** |
|---|---|---|---|
| | **$** | **$** | **$** |
| Oil and natural gas properties | 9,431,149 | 117,326 | 9,313,823 |
| Office and other equipment | 221,393 | 12,300 | 209,093 |
| | 9,652,542 | 129,626 | 9,522,916 |

As at December 31, 2006, the cost of oil and natural gas properties includes $1,969,239 relating to properties from which there is no production and no reserves assigned and which have been excluded from costs subject to depletion and depreciation. As at December 31, 2006, future development capital of $1,983,000 required to recover reserves has been included in the costs subject to depletion and depreciation. During the period ended December 31, 2006, the provision for depletion, depreciation and accretion includes $1,127 for accretion of asset retirement obligations. During the period ended December 31, 2006, the Company capitalized $80,105 of general and administrative costs.

The Company performed an impairment test calculation at December 31, 2006 to assess the recoverable value of the oil and natural gas properties. The oil and natural gas future prices are based on January 1, 2007 commodity price forecasts of the Company's independent reserve evaluators. These prices have been adjusted for commodity price differentials specific to the Company. The following table summarizes the benchmark prices used in the ceiling test calculation. Based on these assumptions, there was no impairment at December 31, 2006.

| Year | WTI Oil ($US/bbl) | Foreign Exchange Rate | Edmonton Light Crude Oil ($Cdn/bbl) | AECO Gas ($Cdn/mmbtu) |
|---|---|---|---|---|
| 2007 | 62.00 | 0.870 | 70.25 | 7.20 |
| 2008 | 60.00 | 0.870 | 68.00 | 7.45 |
| 2009 | 58.00 | 0.870 | 65.75 | 7.75 |
| 2010 | 57.00 | 0.870 | 64.50 | 7.80 |
| 2011 | 57.00 | 0.870 | 64.50 | 7.85 |
| 2012 | 57.50 | 0.870 | 65.00 | 8.15 |
| 2013 | 58.50 | 0.870 | 66.25 | 8.30 |
| 2014 | 59.75 | 0.870 | 67.75 | 8.50 |
| 2015 | 61.00 | 0.870 | 69.00 | 8.70 |
| 2016 | 62.25 | 0.870 | 70.50 | 8.90 |
| 2017 | 63.50 | 0.870 | 71.75 | 9.10 |
| Escalate Thereafter | 2.0% per year | | 2.0% per year | 2.0% per year |

## 4. ASSET RETIREMENT OBLIGATIONS

The Company's asset retirement obligations result from net ownership interests in oil and natural gas properties including well sites, gathering systems, and processing facilities. The Company estimates the total undiscounted amount of cash flows (adjusted for inflation at 2% per year) required to settle its asset retirement obligations is approximately $389,000 which is estimated to be incurred between 2007 and 2026. A credit-adjusted risk-free rate of 7% was used to calculate the fair value of the asset retirement obligations.

A reconciliation of the asset retirement obligations is provided below:

| | Amount ($) |
|---|---|
| Balance, beginning of period | - |
| Liabilities obtained through property acquisition (note 2) | 132,627 |
| Liabilities incurred in period | 39,419 |
| Accretion expense | 1,127 |
| Balance at December 31, 2006 | 173,173 |

## 5. TAXES

a) The recovery of income taxes on the consolidated statement of operations and deficit differs from the amount that would be computed by applying the expected tax rates to net loss from continuing operations. The reasons for the difference between such expected income tax recovery and the amount recorded are as follows:

| | **Period ended December 31, 2006** | Year ended February 28, 2006 |
|---|---|---|
| Income tax rate | **34.12%** | 34.12% |
| | **$** | $ |
| Expected income tax expense (recovery) | **(148,873)** | (66,148) |
| Increase in income taxes resulting from: | | |
| Non-deductible crown charges | **3,616** | - |
| Resource allowance | **8,662** | - |
| Rate reduction and other | **668,913** | 5,566 |
| Valuation allowance | **(532,318)** | 60,582 |
| | **-** | - |

b) The components of the net future income tax asset at December 31, 2006 are as follows:

| | **Period ended December 31, 2006** | Year ended February 28, 2006 |
|---|---|---|
| | **$** | $ |
| Future income tax assets: | | |
| Oil and natural gas properties and equipment | **4,674,326** | 5,157,971 |
| Asset retirement obligations | **50,220** | - |
| Share issue costs | **66,486** | 76,620 |
| Non-capital losses | **1,087,714** | 1,328,682 |
| Capital losses | **495,409** | 343,200 |
| Valuation allowance | **(6,374,155)** | (6,906,473) |
| Net future income tax asset | **-** | - |

At December 31, 2006, the Company had tax pools, losses, and share issue costs of approximately $30.5 million, comprised of $13.2 million in Canadian Exploration Expense (CEE) (net of $2.0 million of flow-through commitments), $3.4 million in Canadian Development Expense (CDE) (net of $0.5 million of flow-through commitments), $5.0 million in Canadian Oil and Gas Property Expense (COGPE), $1.5 million in undepreciated capital cost (UCC) pools, share issue costs of $0.2 million, non-capital losses of $3.8 million, and capital losses of $3.4 million that can be used to offset otherwise taxable income in future periods. The non-capital losses expire at various dates up to 2026. The tax pools, losses, and share issue costs have not been reviewed by taxation authorities and are subject to review at any time.

## 6. CONVERTIBLE DEBENTURES

### Convertible Debentures

| | Liability Component | Equity Component | Total |
|---|---|---|---|
| Opening balance, March 1, 2006 | 416,780 | 233,030 | 649,810 |
| Accretion of liability | 54,551 | - | 54,551 |
| Conversion of outstanding debentures to equity | (471,331) | (233,030) | (704,361) |
| Closing balance, December 31, 2006 | - | - | - |

### Deferred financing costs

| | Total |
|---|---|
| Opening balance, March 1, 2006 | 56,210 |
| Less: Amortization of interest | (56,210) |
| Closing balance, December 31, 2006 | - |

On December 6, 2006, as consideration for the cancellation of all outstanding convertible debentures, the Company issued 391,132 non-voting common shares, which were subsequently converted to voting common shares (see note 7(b)). As a result, all remaining unamortized deferred financing costs were amortized.

## 7. CAPITAL STOCK

### a) Authorized:

Unlimited number of voting common shares.
Unlimited number of non-voting common shares.

Subsequent to year-end, the Company filed articles of amendment to authorize the issuance of Class A and Class B preferred shares, issuable in series, and special voting shares, issuable in series.

### b) Issued and outstanding:

On January 17, 2007, the Company's outstanding common shares were consolidated on a 13.5135 to 1 basis. The amounts disclosed in the following table are prepared on a post-consolidated basis.

| | Number | Amount ($) |
|---|---|---|
| **Voting common shares** | | |
| Opening balance, March 1, 2006 | 324,298 | 203,488 |
| Private placements | | |
| - issued at $1.00 per share | 22,384,570 | 22,384,570 |
| - issued at $1.20 per share | 420,000 | 504,000 |
| Total private placements | 22,804,570 | 22,888,570 |
| | | |
| Purchase of private company | 420,001 | 504,001 |
| Conversion of outstanding debentures to equity | 391,132 | 704,361 |
| Share issue costs | | (75,929) |
| Closing balance, December 31, 2006 | 23,940,001 | 24,224,491 |

During November 2006, Crocotta issued, by way of private placement, approximately 22.8 million shares for proceeds of approximately $22.9 million. Of the 22.8 million shares issued, 1.5 million shares were issued on a flow-through basis at a price of $1.00 per share and approximately 0.4 million shares were issued on a flow-through basis at a price of $1.20 per share. The Company has an additional $0.5 million flow-through commitment that it acquired upon the acquisition of all of the issued and outstanding shares of a private company on November 15, 2006 (see note 2(b)). At December 31, 2006, approximately $2.1 million of the total outstanding flow-through commitment of $2.5 million had been spent by the Company. The remaining flow-through commitment of $0.4 million was spent subsequent to year-end.

In conjunction with the private placement, Crocotta entered into a put and call obligation agreement to issue approximately 6.1 million additional common shares at $1.00 per share for proceeds of approximately $6.1 million. The put and call obligation agreement expires on November 23, 2009, unless the board of directors of the Company extends the term of the agreement.

On December 6, 2006, the Company issued an additional 0.4 million shares as consideration for the conversion of outstanding debentures to equity (see note 6).

**c) Warrants**

Subsequent to year-end, the Company issued performance warrants to directors, officers, and employees as outlined below:

| | Number of Warrants | Weighted Average Price ($) | Amount ($) | Expiry Date |
|---|---|---|---|---|
| Performance Warrants | | | | |
| - issued at $1.25 per share | 2,241,666 | 1.25 | 2,802,083 | December 23, 2009 |
| - issued at $1.50 per share | 2,241,667 | 1.50 | 3,362,501 | December 23, 2009 |
| - issued at $2.00 per share | 2,241,667 | 2.00 | 4,483,334 | December 23, 2009 |
| | 6,725,000 | 1.58 | 10,647,918 | |

One third of each performance warrant issuance vests over the next three years. The Company has a total of 7,212,000 performance warrants available for issuance, representing 24% of total issued and outstanding common shares and total issued and outstanding special voting shares (see note 7(e)).

**d) Stock options**

Subsequent to year-end, the Company authorized the issuance of 2,685,000 common shares at an exercise price of $1.00 per share under a stock option plan enabling certain directors, officers, and employees to purchase common shares. The Company has reserved for issuance 3,005,000 common shares for this purpose, representing 10% of total issued and outstanding common shares and total issued and outstanding special voting shares (see note 7(e)). The Company will not issue options exceeding 10% of the total common shares and special voting shares outstanding at the time of the option grants. The options vest over a period of three years and have a term of five years. The options expire on January 23, 2012. As at December 31, 2006, there were no stock options outstanding.

**e) Special voting shares**

Subsequent to year-end, 6,110,000 series I special voting shares were issued, relating to the outstanding put and call obligation at December 31, 2006. The special voting shares will be cancelled upon exercise of the outstanding put and call obligation and an equivalent number of voting common shares will then be issued.

### f) Per share information

The weighted average number of shares outstanding for the determination of basic and diluted per share amounts, reflecting the consolidation of shares on January 17, 2007, are as follows:

| | **Period ended December 31, 2006** | Year ended February 28, 2006 |
|---|---|---|
| Basic and diluted | **3,643,949** | 256,728 |

For the period ended December 31, 2006, the Company excluded 6,110,000 common shares from the weighted average calculation, which were issuable from the outstanding put and call obligation, as the effect was not dilutive.

## 8. DISCONTINUED OPERATIONS

On August 16, 2005, Donner Minerals Ltd. ("Donner"), the predecessor to Crocotta, completed a reorganization, by way of statutory plan of arrangement, and restructured into two separate companies, Donner Metals Ltd. and Donner, which changed its name to Donner Petroleum Ltd. and subsequently to Crocotta Energy Inc. As a result of the reorganization and the lack of continuing operations, the Company's audited consolidated financial statements for the year ended February 28, 2006 segregated items prior to and subsequent to the reorganization. For purposes of the comparative period financial statements of Crocotta for the 10-month period ended December 31, 2006, all items disclosed as prior to restructuring in the audited consolidated financial statements for the year ended February 28, 2006 have been reclassified as discontinued operations.

## 9. FINANCIAL INSTRUMENTS

### a) Fair values

The carrying value of cash and cash equivalents, accounts receivable, prepaid expenses and deposits, and accounts payable and accrued liabilities approximate their fair value due to the near term maturity of these instruments.

### b) Credit risk

A substantial portion of the Company's accounts receivable are with customers and joint venture partners in the oil and natural gas industry and are subject to normal industry credit risks. The credit risk on receivables is mitigated by selling to a number of large credit-worthy purchasers.

### c) Commodity price risk

The Company's oil and natural gas production is marketed and sold on the spot market to area aggregators based on daily spot prices that are adjusted for product quality and transportation costs.

The Company is exposed to foreign currency fluctuations as crude oil prices received are referenced to U.S. dollar denominated prices.

## 10. SUPPLEMENTAL CASH FLOW INFORMATION

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

| | Amount ($) |
|---|---|
| Accounts receivable | (964,869) |
| Prepaid expenses and deposits | (109,284) |
| Accounts payable and accrued liabilities | 3,314,071 |
| Loan payable | (75,000) |
| Net change in non-cash working capital | 2,164,918 |
| | |
| Relating to: | |
| Operating | (541,501) |
| Investing | 2,706,419 |
| Net change in non-cash working capital | 2,164,918 |

### b) Interest and taxes

| | Amount ($) |
|---|---|
| Cash interest received | 44,110 |
| Cash interest paid | (48,455) |
| | (4,345) |
| | |
| Cash taxes paid | - |

## 11. COMMITMENTS

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

| | Amount ($) |
|---|---|
| 2007 | 586,661 |
| 2008 | 586,661 |
| 2009 | 586,661 |
| 2010 | 586,661 |
| 2011 | 488,884 |
| | 2,835,528 |

## 12. SUBSEQUENT EVENTS

On January 1, 2007, the Company amalgamated with its wholly-owned subsidiary.

On April 18, 2007, the Company announced that it entered into an arrangement (“Arrangement”) whereby it will combine with Eastshore Energy Ltd. (“Eastshore”), a public oil and natural gas company listed on the TSX Venture Exchange. Eastshore has oil and natural gas assets located in West Central Alberta with a value of approximately $33.9 million. The Arrangement is expected to close in early June 2007.

Crocotta entered into a financing arrangement to issue 7.2 million common shares priced at $1.25 per share for proceeds of $9.0 million, contingent on the closing of the Arrangement. In conjunction with this offering, Crocotta will have an option to issue up to an additional 8.0 million common shares priced at $1.25 per share for a period of 10 business days after closing of the Arrangement.

Crocotta entered into a second financing arrangement to issue special warrants. Subject to certain conditions, the special warrants will be converted to approximately 3.2 million flow-through common shares, priced at $1.55 per share for proceeds of approximately $5.0 million.

## CORPORATE INFORMATION

### OFFICERS AND DIRECTORS

**Robert J. Zakresky, CA**
President, CEO & Director

**Nolan Chicoine, MPAcc, CA**
VP Finance & CFO

**Terry L. Trudeau, P.Eng.**
VP Operations & COO

**Weldon Dueck, BSc., P.Eng.**
VP Business Development

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

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

**Kevin Keith**
VP Production

**Larry G. Moeller, CA, CBV**
Chairman of the Board

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

**Don Cowie**
Director

**Brian Krausert**
Director

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**FORWARD-LOOKING STATEMENTS**

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

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

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