Press Release

Crocotta Announces 2009 Financial and Operating Results

Calgary, Alberta, March 25, 2010 **- CROCOTTA ENERGY INC. (TSX – CTA)** is pleased to announce its financial and operating results for year ended December 31, 2009, including financial statements, notes to the financial statements, and Management's Discussion and Analysis. All dollar figures are Canadian dollars unless otherwise noted.

HIGHLIGHTS

- Established a new core area at Edson, with material exploitation upside, via the acquisition of Salvo Energy Corporation ("Salvo") for approximately $78.1 million.
- Increased Crocotta's presence in the emerging Pembina Cardium light oil play.
- Continued to drill wells to further establish reserves and commercial viability of Crocotta's large Montney land base in Northeast British Columbia and Northwest Alberta.
- Enhanced the value of the acquired Salvo properties by over $20 million with minimal capital expenditures through improved liquids recovery, operating cost reductions, and production optimization.
- Increased proved plus probable reserves from 7.1 MMboe to 13.3 MMboe.[1]
- Increased bank credit facility to $65.0 million effective March 17, 2010.

	Three Months Ended December 31			Year Ended December 31		
FINANCIAL	**2009**	2008	% Change	**2009**	2008	% Change
($000s, except per share amounts)						
Oil and natural gas sales	**12,130**	8,729	39	**34,199**	54,468	(37)
Funds from operations [2]	**3,972**	3,463	15	**9,325**	30,607	(70)
per share - basic and diluted	**0.06**	0.09	(33)	**0.18**	0.89	(80)
Net earnings (loss) before extraordinary items	**(4,155)**	(2,511)	65	**(14,572)**	2,974	(590)
per share - basic and diluted	**(0.06)**	(0.07)	(14)	**(0.28)**	0.09	(411)
Net earnings (loss)	**3,276**	(2,511)	230	**(7,141)**	2,974	(340)
per share - basic and diluted	**0.05**	(0.07)	171	**(0.14)**	0.09	(256)
Capital expenditures	**2,464**	19,049	(87)	**13,219**	58,964	(78)
Corporate acquisition	**229**	16,575	(99)	**84,544**	16,575	410
Property acquisitions	**(17)**	-	(100)	**2,425**	-	100
Property dispositions	**(9,687)**	(827)	1,071	**(10,553)**	(5,579)	89
Net debt [3]				**70,656**	20,944	237
Common shares outstanding (000s)						
weighted average - basic	**64,719**	38,190	69	**51,883**	34,338	51
weighted average - diluted	**64,719**	38,190	69	**51,883**	34,338	51
end of period - basic				**65,084**	43,985	48
end of period - diluted				**74,760**	49,434	51

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

(3) Net debt includes current liabilities (including the revolving credit facility and secured bridge facility and excluding the risk management contracts) less current assets. Net debt does not have any standardized meaning prescribed by Canadian GAAP and therefore may not be comparable to similar measures used by other companies. Please refer to the Non-GAAP Measures section in the MD&A for more details.

OPERATING	Three Months Ended December 31 2009	2008	% Change	Year Ended December 31 2009	2008	% Change
Number of producing days	**92**	92		**365**	366	
Daily production						
Oil and liquids - (bbls/d)	**1,140**	746	53	**912**	807	13
Natural gas - (mcf/d)	**12,157**	7,628	59	**9,450**	8,170	16
Oil equivalent - (boe/d @ 6:1)	**3,166**	2,017	57	**2,487**	2,169	15
Revenue						
Oil and liquids - ($/bbl)	**66.58**	54.00	23	**58.65**	94.11	(38)
Natural gas - ($/mcf)	**4.60**	7.16	(36)	**4.26**	8.92	(52)
Oil equivalent - (boe/d @ 6:1)	**41.64**	47.04	(11)	**37.68**	68.63	(45)
Royalties						
Oil and liquids - ($/bbl)	**23.31**	12.22	91	**19.66**	21.61	(9)
Natural gas - ($/mcf)	**0.15**	1.17	(87)	**0.14**	1.53	(91)
Oil equivalent - (boe/d @ 6:1)	**8.98**	8.93	1	**7.74**	13.80	(44)
Production expenses						
Oil and liquids - ($/bbl)	**10.24**	8.06	27	**9.09**	8.21	11
Natural gas - ($/mcf)	**1.36**	2.06	(34)	**1.85**	1.79	3
Oil equivalent - (boe/d @ 6:1)	**8.91**	10.77	(17)	**10.37**	9.80	6
Transportation expenses						
Oil and liquids - ($/bbl)	**1.24**	1.33	(7)	**1.55**	1.33	17
Natural gas - ($/mcf)	**0.16**	0.17	(6)	**0.17**	0.16	6
Oil equivalent - (boe/d @ 6:1)	**1.06**	1.12	(5)	**1.21**	1.09	11
Operating netback (1)						
Oil and liquids - ($/bbl)	**31.79**	32.39	(2)	**28.35**	62.96	(55)
Natural gas - ($/mcf)	**2.93**	3.76	(22)	**2.10**	5.44	(61)
Oil equivalent - (boe/d @ 6:1)	**22.69**	26.22	(13)	**18.36**	43.94	(58)
Realized loss on risk management contracts - ($/boe)	**0.74**	-	100	**0.23**	-	100
Unrealized loss on risk management contracts - ($/boe)	**0.73**	-	100	**1.15**	-	100
General and administrative expenses - ($/boe)	**3.59**	6.47	(45)	**4.86**	4.62	5
Interest expense (income) - ($/boe)	**4.73**	1.08	338	**2.99**	0.76	293
Depletion, depreciation, and accretion - ($/boe)	**24.47**	31.50	(22)	**27.10**	31.22	(13)
Stock-based compensation - ($/boe)	**5.70**	0.83	587	**2.65**	0.84	215
Goodwill impairment - ($/boe)	**-**	3.27	(100)	**-**	0.76	(100)
Future income tax expense (recovery) - ($/boe)	**(2.99)**	(3.40)	(12)	**(4.57)**	1.99	(330)
Gain on contingent consideration - ($/boe)	**(25.51)**	-	100	**(8.19)**	-	100
Net earnings (loss) - ($/boe)	**11.23**	(13.53)	183	**(7.86)**	3.75	(310)

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

Operations Update

In 2009, the Company took a large step forward by adding 2 additional resource plays to its inventory. The Edson property had an immediate impact through optimization of existing production but more importantly has added a multi-zone resource style property with Bluesky, Notikewin, Wilrich, and Cardium upside. The 8 net sections of Cardium oil rights at Pembina has added a light oil resource play to complement the natural gas Montney resource play acquired in prior years and the liquids rich Bluesky resource play at Edson.

In 2010, Crocotta plans to "prove up" its various resource plays that will lend to large scale development in future years. The capital budget of $24 million will be allocated as follows:

Pembina Cardium

Crocotta has approximately 8 net sections in the Pembina area that are prospective for light Cardium oil.

In Q110, Crocotta drilled a low working interest horizontal multi-frac well (22% WI) that will help prove up offsetting 100% working interest lands. This well is to be completed in late March. Crocotta has estimated net recoverable reserves[1] of 5.3 million boe on its lands and up to 32 horizontal drilling locations if proven successful. Average initial production rates in the area are 150 boepd to 500 boepd. Up to 3 (2.5 net) follow-up wells will be drilled in 2010 if the first well is successful.

Edson Bluesky

Crocotta has a 75% working interest in over 65 sections of land in the Edson area prospective for various zones including Bluesky, Notikewin, Wilrich, and Cardium.

In Q110, Crocotta drilled a low working interest well (29% WI) that will help prove up offsetting 100% working interest lands. This well is to be completed in early June. Crocotta has estimated net recoverable reserves[1] of 12.8 million boe on its lands and over 20 drilling locations from the Bluesky if proven successful. Average initial production rates in the area are 300 boepd to 1,500 boepd. Up to 3 (1.5 net) follow-up locations will be drilled in 2010 if the first well is successful.

Dawson and Glacier Montney

Crocotta has an average 73% working interest in 37 sections of land in the Glacier and Dawson areas that are prospective for Montney.

In Q210, Crocotta will be completing 1 vertical well and drilling 2 additional vertical wells that will provide significant data as to ultimate reserves and deliverability of the Montney on Crocotta lands. Crocotta has estimated net recoverable reserves[1] of over 50 million boe on its lands and over 100 horizontal drilling locations from the Montney if proven successful. Average initial production rates in the area are 300 boepd to 1,500 boepd.

Based on its current land base, Crocotta believes it is now positioned to provide material reserve and production growth on a year over year basis for a minimum of 5 years.

[1] All reserves discussed above are prospective reserves as defined in the Canadian Oil and Gas Evaluation Handbook ("COGE Handbook") as those quantities of oil and gas estimated on a given date to be potentially recoverable from undiscovered accumulations. If discovered, they would be technically and economically viable to recover. There is no certainty that the prospective reserves will be discovered.

Management's Discussion and Analysis

March 22, 2010

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

The MD&A should be read in conjunction with the audited consolidated financial statements and notes thereto for the years ended December 31, 2009 and 2008. The audited consolidated financial statements and financial data contained in the MD&A have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") in Canadian currency (except where noted as being in another currency).

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

BOE Conversions

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

Non-GAAP Measures

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

Forward-Looking Information

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

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

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

Summary of Financial Results	Three Months Ended December 31 **2009**	2008	2007	Year Ended December 31 **2009**	2008	2007
($000s, except per share amounts)						
Oil and natural gas sales	**12,130**	8,729	9,994	**34,199**	54,468	14,378
Funds from operations	**3,972**	3,463	4,997	**9,325**	30,607	6,405
per share - basic and diluted	**0.06**	0.09	0.16	**0.18**	0.89	0.39
Net earnings (loss) before extraordinary items	**(4,155)**	(2,511)	(523)	**(14,572)**	2,974	(739)
per share - basic and diluted	**(0.06)**	(0.07)	(0.02)	**(0.28)**	0.09	(0.04)
Net earnings (loss)	**3,276**	(2,511)	(523)	**(7,141)**	2,974	(739)
per share - basic and diluted	**0.05**	(0.07)	(0.02)	**(0.14)**	0.09	(0.04)
Total assets				**254,156**	187,987	147,631
Total long-term liabilities				**10,084**	13,184	5,496
Net debt				**70,656**	20,944	11,455

General

On August 13, 2009, the Company closed a business combination (the "Acquisition") whereby it acquired all of the issued and outstanding shares of Salvo Energy Corporation ("Salvo"). Salvo had oil and natural gas assets located in West Central Alberta that produced approximately 1,550 boe/d at the time of closing of the Acquisition. Consideration for the Acquisition was approximately $78.1 million, consisting of the issuance of approximately 19.9 million Crocotta common shares and the assumption of approximately $54.5 million in net debt.

Subsequent to the Acquisition, Crocotta initiated a sales process on several of the Company's non-core oil and natural gas assets. During the year, the Company sold certain non-core oil and natural gas properties for cash proceeds of approximately $10.6 million. Subsequent to December 31, 2009, the Company sold certain non-core oil and natural gas properties for cash proceeds of approximately $19.5 million. Production from these assets totaled approximately 880 boe/d.

Production	Three Months Ended December 31 **2009**	2008	% Change	Year Ended December 31 **2009**	2008	% Change
Average Daily Production						
Oil and NGLs (bbls/d)	**1,140**	746	53	**912**	807	13
Natural gas (mcf/d)	**12,157**	7,628	59	**9,450**	8,170	16
Total (boe/d)	**3,166**	2,017	57	**2,487**	2,169	15

Daily production for the three months ended December 31, 2009 increased 57% to 3,166 boe/d compared to 2,017 boe/d for the comparative period in 2008. For the year ended December 31, 2009, daily production increased 15% to 2,487 boe/d from 2,169 boe/d for the year ended December 31, 2008. The increase in production was a result of the acquisition of Salvo on August 13, 2009, which was producing approximately 1,550 boe/d at the date of acquisition.

Crocotta's production profile remained constant in 2009, comprised of 63% natural gas and 37% oil and NGLs, which was equivalent to the production profile for the year ended December 31, 2008.

Revenue ($000s)	Three Months Ended December 31 **2009**	2008	% Change	Year Ended December 31 **2009**	2008	% Change
Oil and NGLs	**6,983**	3,705	88	**19,521**	27,784	(30)
Natural gas	**5,147**	5,024	2	**14,678**	26,684	(45)
Total revenue	**12,130**	8,729	39	**34,199**	54,468	(37)
Average Sales Price						
Oil and NGLs ($/bbl)	**66.58**	54.00	23	**58.65**	94.11	(38)
Natural gas ($/mcf)	**4.60**	7.16	(36)	**4.26**	8.92	(52)
Average sales price ($/boe)	**41.64**	47.04	(11)	**37.68**	68.63	(45)

Revenue totaled $12.1 million for the fourth quarter of 2009, up from $8.7 million for the fourth quarter of 2008. The increase was the result of a significant increase in production and an increase in oil and NGLs commodity prices, which was offset by a significant decline in natural gas commodity prices. For the year, revenue decreased to $34.2 million compared to $54.5 million in 2008. The decrease in revenue was due to a significant decrease in overall oil, NGLs, and natural gas commodity prices in 2009 compared to 2008.

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

Commodity Pricing	**Three Months Ended December 31**			**Year Ended December 31**		
	2009	2008	% Change	**2009**	2008	% Change
Oil and NGLs						
Corporate Price ($Cdn/bbl)	**66.58**	54.00	23	**58.65**	94.11	(38)
West Texas Intermediate ($US/bbl)	**75.96**	58.33	30	**61.63**	99.59	(38)
Edmonton Par ($Cdn/bbl)	**76.75**	63.94	20	**66.20**	102.85	(36)
Natural gas						
Corporate Price ($Cdn/mcf)	**4.60**	7.16	(36)	**4.26**	8.92	(52)
AECO Price ($Cdn/mcf)	**4.42**	6.71	(34)	**3.93**	8.15	(52)
Exchange Rates						
U.S./Cdn. Dollar Average Exchange Rate	**0.9471**	0.8265	15	**0.8802**	0.9433	(7)

Corporate average oil and NGLs prices were 86.7% and 88.6% of Edmonton Par price for the three months and year ended December 31, 2009, respectively. Corporate average natural gas prices were 104.1% and 108.4% of AECO Spot prices for the three months and year ended December 31, 2009, respectively. Differences between corporate and benchmark prices can be a result of quality (higher or lower API, higher or lower heat content), sour content, NGLs included in reporting, and various other factors. Crocotta's differences are mainly the result of lower priced NGLs included in oil price reporting and higher heat content natural gas production that is priced higher than AECO reference prices. Note that these differences change on a monthly basis depending on demand for each particular product.

Future prices received from the sale of the products may fluctuate as a result of market factors. Other than noted below, the Company did not hedge any of its oil, NGLs or natural gas production in 2009. Beginning September 2009, the Company entered into hedges in the form of monthly settled puts ("Floors") as detailed below.

Product	**Period**	**Production**	**Floor Price**
Oil	September 2009 – December 2009	900 bbls/d	WTI CDN $50.00/bbl
Oil	January 2010 – December 2010	1,000 bbls/d	WTI CDN $50.00/bbl
Gas	September 2009 – December 2009	8.5 mmcf/d	AECO CDN $3.00/mcf
Gas	January 2010 – December 2010	10.0 mmcf/d	AECO CDN $4.00/mcf

For the three months ended December 31, 2009, the realized loss on the risk management contracts was $0.2 million and the unrealized loss on the risk management contracts was $0.2 million. For the year, the realized loss on the risk management contracts was $0.2 million and the unrealized loss on the risk management contracts was $1.0 million. The fair value of the risk management contracts at December 31, 2009 was a liability of $1.0 million.

Royalties	**Three Months Ended December 31**			**Year Ended December 31**		
($000s)	**2009**	2008	% Change	**2009**	2008	% Change
Oil and NGLs	**2,445**	838	192	**6,542**	6,381	3
Natural gas	**171**	819	(79)	**482**	4,571	(89)
Total royalties	**2,616**	1,657	58	**7,024**	10,952	(36)
Average Royalty Rate (% of sales)						
Oil and NGLs	**35.0**	22.6	55	**33.5**	23.0	46
Natural gas	**3.3**	16.3	(80)	**3.3**	17.1	(81)
Average royalty rate	**21.6**	19.0	14	**20.5**	20.1	2

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. Effective January 1, 2009, the provincial government of Alberta implemented the new Alberta Royalty Framework (the "NRF"). Under the NRF, crown royalties are calculated on a sliding scale based on commodity prices and individual well production rates. Royalty rates can change due to commodity price fluctuations and changes in production volumes on a well-by-well basis, subject to a minimum and maximum rate restriction ascribed by the Crown.

For the three months ended December 31, 2009, oil, NGLs, and natural gas royalties increased 58% to $2.6 million compared to $1.7 million for the comparative period. The increase was due to an increase in revenue in the fourth quarter that resulted from the acquisition of Salvo in August 2009. For the year, oil, NGLs, and natural gas royalties decreased 36% to $7.0 million compared to $11.0 million in 2008. The decrease was a result of a decrease in revenue for the year stemming from a significant decline in oil, NGLs, and natural gas commodity prices, combined with favorable prior period adjustments to the annual capital cost and processing fee deductions and an increase in the monthly capital cost and processing fee deductions for 2009.

The overall effective royalty rate was 21.6% for the three months ended December 31, 2009, compared to 19.0% for the quarter ended December 31, 2008. For the year, the overall effective royalty rate was 20.5% in 2009 compared to 20.1% in 2008. The effective oil and NGLs royalty rates for the three months and year ended December 31, 2009 increased 55% and 46%, respectively, compared to the three months and year ended December 31, 2008 as a result of the implementation of the new Alberta Royalty Framework. The effective natural gas royalty rates for the three months and year ended December 31, 2009 decreased significantly compared to the three months and year ended December 31, 2008 as a result of the significant decline in natural gas commodity prices combined with favorable prior period adjustments to the annual capital cost and processing fee deductions and an increase in the monthly capital cost and processing fee deductions.

Production Expenses	**Three Months Ended December 31**			**Year Ended December 31**		
	2009	2008	% Change	**2009**	2008	% Change
Oil and NGLs ($/bbl)	**10.24**	8.06	27	**9.09**	8.21	11
Natural gas ($/mcf)	**1.36**	2.06	(34)	**1.85**	1.79	3
Total ($/boe)	**8.91**	10.77	(17)	**10.37**	9.80	6

Per unit production expenses for the three months ended December 31, 2009 were $8.91/boe, down from $10.77/boe for the comparative period ended December 31, 2008. For the year, per unit production expenses were $10.37/boe, up 6% from $9.80/boe in 2008. Per unit production expenses declined in the fourth quarter of 2009 as a result of the acquisition of Salvo and lower costs associated with the oil and natural gas assets acquired. The assets acquired included ownership interests in two separate gas plants that generate processing and gathering income related to joint venture and third party production which results in a reduction in production expenses.

Transportation Expenses	**Three Months Ended December 31**			**Year Ended December 31**		
	2009	2008	% Change	**2009**	2008	% Change
Oil and NGLs ($/bbl)	**1.24**	1.33	(7)	**1.55**	1.33	17
Natural gas ($/mcf)	**0.16**	0.17	(6)	**0.17**	0.16	6
Total ($/boe)	**1.06**	1.12	(5)	**1.21**	1.09	11

Transportation expenses are mainly third-party pipeline tariffs incurred to deliver the products to the purchasers at main hubs. For the year, transportation expenses increased as a result of higher natural gas and NGLs transportation costs incurred on the Dawson Montney well which came on production at the end of Q1 2009 combined with an increase in NGLs transportation costs relating to an adjustment for prior period expenses on one of the Company's wells. For the quarter, transportation expenses declined as a result of lower transportation costs on the oil and natural gas assets acquired from Salvo in August 2009.

Operating Netback	**Three Months Ended December 31**			**Year Ended December 31**		
	2009	2008	% Change	**2009**	2008	% Change
Oil and NGLs ($/bbl)						
Revenue	**66.58**	54.00	23	**58.65**	94.11	(38)
Royalties	**23.31**	12.22	91	**19.66**	21.61	(9)
Production expenses	**10.24**	8.06	27	**9.09**	8.21	11
Transportation expenses	**1.24**	1.33	(7)	**1.55**	1.33	17
Operating netback	**31.79**	32.39	(2)	**28.35**	62.96	(55)
Natural gas ($/mcf)						
Revenue	**4.60**	7.16	(36)	**4.26**	8.92	(52)
Royalties	**0.15**	1.17	(87)	**0.14**	1.53	(91)
Production expenses	**1.36**	2.06	(34)	**1.85**	1.79	3
Transportation expenses	**0.16**	0.17	(6)	**0.17**	0.16	6
Operating netback	**2.93**	3.76	(22)	**2.10**	5.44	(61)
Combined ($/boe) (6:1)						
Revenue	**41.64**	47.04	(11)	**37.68**	68.63	(45)
Royalties	**8.98**	8.93	1	**7.74**	13.80	(44)
Production expenses	**8.91**	10.77	(17)	**10.37**	9.80	6
Transportation expenses	**1.06**	1.12	(5)	**1.21**	1.09	11
Operating netback	**22.69**	26.22	(13)	**18.36**	43.94	(58)

During the fourth quarter of 2009, Crocotta generated an operating netback of $22.69/boe, down 13% from $26.22/boe for the fourth quarter of 2008. For the year, the Company generated an operating netback of $18.36/boe, down 58% from $43.94/boe for the comparative period in 2008. The decrease was mainly due to a significant decline in oil, NGLs, and natural gas commodity prices, and was partially offset by a corresponding decrease in royalties.

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

	Three Months Ended December 31			Year Ended December 31		
($/boe)	**2009**	2008	% Change	**2009**	2008	% Change
Operating netback	**22.69**	26.22	(13)	**18.36**	43.94	(58)
Realized loss (gain) on risk management Contracts	**0.74**	-	100	**0.23**	-	100
Unrealized loss (gain) on risk management Contracts	**0.73**	-	100	**1.15**	-	100
General and administrative expenses	**3.59**	6.47	(45)	**4.86**	4.62	5
Interest expense	**4.73**	1.08	338	**2.99**	0.76	293
Depletion, depreciation, and accretion	**24.47**	31.50	(22)	**27.10**	31.22	(13)
Stock-based compensation	**5.70**	0.83	587	**2.65**	0.84	215
Goodwill impairment	-	3.27	(100)	-	0.76	(100)
Future income tax expense (recovery)	**(2.99)**	(3.40)	(12)	**(4.57)**	1.99	(330)
Gain on contingent consideration	**(25.51)**	-	100	**(8.19)**	-	100
Net earnings (loss)	**11.23**	(13.53)	183	**(7.86)**	3.75	(310)

General and Administrative Expenses	Three Months Ended December 31			Year Ended December 31		
($000s)	**2009**	2008	% Change	**2009**	2008	% Change
G&A expenses (gross)	**1,381**	1,613	(14)	**5,504**	4,768	15
G&A capitalized	**(168)**	(214)	(21)	**(735)**	(580)	27
G&A recoveries	**(168)**	(198)	(15)	**(361)**	(520)	(31)
G&A expenses (net)	**1,045**	1,201	(13)	**4,408**	3,668	20
G&A expenses ($/boe)	**3.59**	6.47	(45)	**4.86**	4.62	5

General and administrative expenses ("G&A") decreased to $3.59/boe for the fourth quarter of 2009 compared to $6.47/boe for the quarter ended December 31, 2008. The decrease per boe in the quarter was due to a significant increase in production resulting from the acquisition of Salvo. For the year ended December 31, 2009, G&A increased 5% to $4.86/boe from $4.62/boe for the year ended December 31, 2008. The increase for the year ended December 31, 2009 was due to higher G&A costs, mainly related to higher employment costs, spread over higher production volumes.

Interest	Three Months Ended December 31			Year Ended December 31		
($000s)	**2009**	2008	% Change	**2009**	2008	% Change
Interest expense	**1,436**	210	584	**2,808**	622	351
Interest income	**(57)**	(9)	533	**(90)**	(20)	350
Net interest expense	**1,379**	201	586	**2,718**	602	351
Interest expense ($/boe)	**4.73**	1.08	338	**2.99**	0.76	293

Interest expense amounts relate mainly to interest incurred on amounts drawn from the Company's credit facility and amounts drawn on the Company's secured bridge facility (see "Liquidity and Capital Resources"), which was acquired on the acquisition of Salvo. The increase in interest expense correlates to the increase in amounts drawn on the revolving credit facility and amounts drawn on the secured bridge facility.

Depletion, Depreciation and Accretion	Three Months Ended December 31			Year Ended December 31		
	2009	2008	% Change	**2009**	2008	% Change
DD&A ($000s)	**7,128**	5,845	22	**24,599**	24,776	(1)
DD&A ($/boe)	**24.47**	31.50	(22)	**27.10**	31.22	(13)

Depletion, depreciation and accretion ("DD&A") decreased 22% to $24.47/boe for the quarter ended December 31, 2009 compared to $31.50/boe for the quarter ended December 31, 2008. For the year, DD&A decreased 13% to $27.10/boe compared to $31.22 for the comparative period in 2008. The decrease in DD&A was due to a significant increase in proved reserves as a result of the acquisition of Salvo. The provision for DD&A for the three months and year ended December 31, 2009 includes $0.2 million (2008 – $0.1 million) and $0.5 million (2008 - $0.2 million), respectively, for accretion of asset retirement obligations and $0.1 million (2008 – $0.1 million) and $0.1 million (2008 - $0.1 million), respectively, for amortization of equipment under capital lease.

Stock-based Compensation	**Three Months Ended December 31**			**Year Ended December 31**		
	2009	2008	% Change	**2009**	2008	% Change
Stock-based compensation ($000s)	**1,659**	154	977	**2,403**	670	259
Stock-based compensation ($/boe)	**5.70**	0.83	587	**2.65**	0.84	215

The Company grants stock options to officers, directors, employees and consultants and calculates the related stock-based compensation using the Black-Scholes option-pricing model. The Company recognizes the expense over the vesting period of the stock options. The Company issued 1.0 million stock options in January 2009 and 2.0 million stock options in September 2009. The Company issued 1.2 million warrants in October 2009 in conjunction with a private placement share issuance to management (see "Liquidity and Capital Resources"). During the year, the Company also received approval to extend the term of 2.4 million previously issued warrants to December 2012. The issuance of these options and warrants and the extension of the term of previously issued warrants during the year resulted in the increase in stock-based compensation in 2009 compared to 2008.

Goodwill Impairment	**Three Months Ended December 31**			**Year Ended December 31**		
	2009	2008	% Change	**2009**	2008	% Change
Goodwill impairment ($000s)	**-**	607	(100)	**-**	607	(100)
Goodwill impairment ($/boe)	**-**	3.27	(100)	**-**	0.76	(100)

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

Gain on Contingent Consideration	**Three Months Ended December 31**			**Year Ended December 31**		
	2009	2008	% Change	**2009**	2008	% Change
Gain on contingent consideration ($000s)	**7,431**	-	100	**7,431**	-	100
Gain on contingent consideration ($/boe)	**25.51**	-	100	**8.19**	-	100

On November 5, 2008, the Company closed a business combination whereby it acquired all of the issued and outstanding shares of a private company ("PrivateCo"). At the time of the business combination, the Company agreed to pay additional consideration to the PrivateCo shareholders in the event that the oil and natural gas properties acquired from PrivateCo were sold within 12 months of closing of the business combination for an amount exceeding $3.0 million. Upon the business combination, the Company recorded a deferred gain in the financial statements to reflect the potential liability to pay the additional consideration. The oil and natural gas properties acquired were not sold within 12 months of closing of the business combination. As a result, the Company reversed the previously recorded deferred gain and recorded an extraordinary gain in the financial statements at December 31, 2009.

Taxes
At December 31, 2009, the Company had approximately $236.0 million in effective tax pools, losses, and share issue costs.

	December 31, 2009	December 31, 2008	% Change
($000s)			
Canadian oil and gas property expense (COGPE)	**42,685**	17,891	139
Canadian development expense (CDE)	**44,796**	39,072	15
Canadian exploration expense (CEE)	**79,985**	74,440	7
Undepreciated capital costs (UCC)	**39,978**	25,923	54
Non-capital losses carried forward	**31,662**	15,270	107
Capital losses carried forward	**1,796**	1,796	-
Share issue costs	**1,603**	2,504	(36)
Valuation allowance	**(6,581)**	(7,121)	(8)
Total pools, losses, and share issue costs	**235,924**	169,775	39

Funds from Operations
Funds from operations for the three months ended December 31, 2009 was $4.0 million ($0.06 per diluted share) compared to $3.5 million ($0.09 per diluted share) for the three months ended December 31, 2008. The increase was due to an increase in production as a result of the acquisition of Salvo and an increase in oil and NGLs commodity prices, which was offset by a significant decline in natural gas commodity prices. For the year ended December 31, 2009, funds from operations was $9.3 million ($0.18 per diluted share) in 2009 compared to $30.6 million ($0.89 per diluted share) in 2008. The decrease was a result of significantly lower oil, NGLs, and natural gas commodity prices in 2009 compared to 2008, and was partially offset by a corresponding decrease in royalties.

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

	Three Months Ended December 31			Year Ended December 31		
	2009	2008	% Change	**2009**	2008	% Change
Funds from operations (non-GAAP)	**3,972**	3,463	15	**9,325**	30,607	(70)
Asset retirement expenditures	**(118)**	(122)	(3)	**(163)**	(122)	34
Change in non-cash working capital	**(365)**	(2,421)	(85)	**950**	(2,733)	135
Cash flow from operating activities (GAAP)	**3,489**	920	279	**10,112**	27,752	(64)

Net Earnings (Loss)

The Company had net earnings of $3.3 million ($0.05 per diluted share) for the three months ended December 31, 2009 compared to a net loss of $2.5 million ($0.07 per diluted share) for the three months ended December 31, 2008. Net earnings arose during the fourth quarter of 2009 as a result of a $7.4 million gain that was recorded in relation to the acquisition of PrivateCo in 2008. For the year ended December 31, 2009, the Company had a net loss of $7.1 million ($0.14 per diluted share) compared to net earnings of $3.0 million ($0.09 per diluted share) in 2008. The net loss arose mainly as a result of a decrease in revenue due to a significant decrease in oil, NGLs, and natural gas commodity prices.

Capital Expenditures

For the three months ended December 31, 2009, the Company had net capital dispositions of $7.0 million compared to net capital expenditures of $34.8 million for the three months ended December 31, 2008. Net capital expenditures for the year totaled $89.6 million compared to $70.0 million in 2008.

	Three Months Ended December 31			Year Ended December 31		
($000s)	**2009**	2008	% Change	**2009**	2008	% Change
Land	**394**	5,323	(93)	**1,179**	18,653	(94)
Drilling, completions, and workovers	**1,970**	11,259	(83)	**8,774**	31,776	(72)
Equipment	**(145)**	1,866	(108)	**2,216**	6,054	(63)
Geological and geophysical	**245**	349	(30)	**1,030**	1,596	(35)
Other	**-**	252	(100)	**20**	885	(98)
Total exploration and development	**2,464**	19,049	(87)	**13,219**	58,964	(78)
Corporate acquisition	**229**	16,575	(99)	**84,544**	16,575	410
Property acquisitions	**(17)**	-	(100)	**2,425**	-	100
Property dispositions	**(9,687)**	(827)	1,071	**(10,553)**	(5,579)	89
Net property acquisitions (dispositions)	**(9,704)**	(827)	1,073	**(8,128)**	(5,579)	46
Total capital expenditures	**(7,011)**	34,797	(120)	**89,635**	69,960	28

During the fourth quarter of 2009, Crocotta drilled 3 (2.5 net) wells, which resulted in 1 (0.5 net) natural gas well, 1 (1.0 net) oil well, and 1 (1.0 net) uneconomical well. During the year ended December 31, 2009, Crocotta drilled 4 (3.0 net) wells, which resulted in 1 (0.5 net) natural gas well, 1 (1.0 net) oil well, and 2 (1.5 net) uneconomical wells.

On August 13, 2009, the Company closed the Acquisition, whereby it acquired all of the issued and outstanding shares of Salvo. Salvo had oil and natural gas assets located in West Central Alberta that produced approximately 1,550 boe/d at the time of closing. Consideration for the Acquisition was approximately $78.1 million, consisting of the issuance of approximately 19.9 million Crocotta common shares and the assumption of approximately $54.5 million in net debt, which included a $25.0 million secured bridge facility (see "Liquidity and Capital Resources") and $29.8 million due to Crocotta. Crocotta obtained an increase in its revolving operating demand loan credit facility, the proceeds of which were lent to Salvo prior to the Acquisition to fund Salvo's acquisition of certain oil and natural gas properties on July 31, 2009.

Subsequent to the Acquisition, Crocotta initiated a sales process on several of the Company's non-core oil and natural gas assets, with the intention to reduce debt levels through the retirement of the secured bridge facility and to focus the Company's operations on its three core areas, which are the Bluesky and Notikewin plays in Edson, Alberta, the Montney play in Northeast British Columbia, and the Cardium play in Pembina, Alberta.

During the year, the Company sold certain non-core oil and natural gas properties to nine unrelated parties for cash proceeds of approximately $10.6 million. Subsequent to December 31, 2009, the Company sold certain non-core oil and natural gas properties to an unrelated party for cash proceeds of approximately $19.5 million. Production from these assets totaled approximately 880 boe/d. In conjunction with these dispositions, the Company repaid the secured bridge facility in full.

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, 2009 along with comparatives for the two prior years and a three year average are as follows:

	2009		2008	
($000's, except were noted)	Proved	Proved & Probable	Proved	Proved & Probable
Reserve additions (mboe) [1]	4,936	6,965	1,438	2,440
Capital expenditures	13,219	13,219	58,964	58,964
Property acquisitions	2,425	2,425	-	-
Property dispositions	(10,553)	(10,553)	(5,579)	(5,579)
Corporate acquisitions	84,544	84,544	16,575	16,575
Total, excluding future capital costs	89,635	89,635	69,960	69,960
Less: Undeveloped Montney land acquired in period[2]	-	-	(22,547)	(22,547)
Total, excluding undeveloped Montney land and future capital costs	89,635	89,635	47,413	47,413
Add: Change in future capital costs [3]	13,814	23,867	(296)	7,190
Total, including undeveloped Montney land and future capital costs	103,449	113,502	69,664	77,150
FD&A costs, excluding future capital costs ($/boe)	18.16	12.87	48.65	28.67
FD&A costs, excluding undeveloped Montney land and future capital costs ($/boe)	18.16	12.87	32.97	19.43
FD&A costs, including undeveloped Montney land and future capital costs ($/boe)	20.96	16.30	48.45	31.62

	2007		3 Years	
($000's, except were noted)	Proved	Proved & Probable	Proved	Proved & Probable
Reserve additions (mboe) [1]	3,720	4,952	10,094	14,357
Capital expenditures	22,387	22,387	94,570	94,570
Property acquisitions	-	-	2,425	2,425
Property dispositions	-	-	(16,132)	(16,132)
Corporate acquisitions	110,632	110,632	211,751	211,751
Total, excluding future capital costs	133,019	133,019	292,614	292,614
Less: Undeveloped Montney land acquired in period[2]	(12,105)	(12,105)	(34,652)	(34,652)
Total, excluding undeveloped Montney land and future capital costs	120,914	120,914	257,962	257,962
Add: Change in future capital costs [3]	5,123	8,847	18,641	39,904
Total, including undeveloped Montney land and future capital costs	138,142	141,866	311,255	332,518
FD&A costs, excluding future capital costs ($/boe)	35.76	26.86	28.99	20.38
FD&A costs, excluding undeveloped Montney land and future capital costs ($/boe)	32.50	24.42	25.56	17.97
FD&A costs, including undeveloped Montney land and future capital costs ($/boe)	37.13	28.65	30.84	23.16

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

(2) Undeveloped Montney land is displayed as a line item due to its materiality and effect on finding costs. As the Montney lands will be evaluated in future years, it is informative to show finding costs with and without these costs.

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

Liquidity and Capital Resources
The Company had net debt of $70.7 million at December 31, 2009 compared to net debt of $20.9 million at December 31, 2008. The change of $49.8 million was mainly due to $54.5 million in net debt acquired on the acquisition of Salvo, transaction costs of $0.5 million, and $13.2 million used for the purchase and development of oil and natural gas properties and equipment, which were offset by $8.1 million in net property dispositions and funds from operations of $9.3 million.

At December 31, 2009, the Company had total credit facilities of $75.2 million, consisting of a $55.0 million revolving operating demand loan credit facility with a Canadian chartered bank and a $20.2 million secured bridge facility. The demand loan credit facility bears interest at prime plus a range of 0.25% to 3.25% and is secured by a $125 million fixed and floating charge debenture on the assets of the Company and its subsidiaries. The next review of the demand loan credit facility by the bank is scheduled on or before September 30, 2010. At December 31, 2009, $52.4 million (December 31, 2008 – $15.7 million) had been drawn on the demand loan credit facility.

The Company acquired a $25.0 million secured bridge facility in conjunction with the Acquisition. This bridge facility bears interest at 8% and is secured by a charge on the assets of Crocotta and its subsidiaries. At December 31, 2009, $4.8 million had been repaid on the fully drawn $25.0 million bridge facility leaving a balance of $20.2 million. The bridge facility had a maturity date of December 31, 2009. The Company obtained an extension on the bridge facility and subsequent to December 31, 2009, the Company sold certain non-core oil and natural gas properties for approximately $19.5 million (see "Capital Expenditures") and used the proceeds to retire the bridge facility.

In conjunction with the retirement of the secured bridge facility, the demand loan credit facility was increased to $65.0 million.

On October 29, 2009, the Company completed a private placement issuance of 1.2 million units (the "Units") at a price of $1.05 per Unit to management of Crocotta. Each Unit consists of one common share of Crocotta and one common share purchase warrant that will allow the holder to purchase an additional common share at a price of $1.40 per share for a period of three years from the date of issuance of the Unit.

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 resulted in the Company experiencing reduced operating netbacks and funds from operations in 2009 when compared to the prior year. Continued pressure on commodity prices would result in the Company experiencing similar results in future periods. The Company has partially mitigated this risk through commodity price hedges on its 2010 production in the form of monthly settled puts ("Floors"). The sale of non-core properties during and subsequent to 2009, the repayment of the secured bridge facility, and the increase in the Company's revolving operating demand loan credit facility to $65.0 million has allowed the Company to strengthen its financial position on a go forward basis and focus capital spending on its three core areas. Crocotta's capital program is flexible and can be adjusted as needed based upon the economic environment. Crocotta has implemented adequate strategies to protect its business as much as possible in the current economic environment, including strategies to balance funds from operations, available credit limits, and capital spending. However, Crocotta is still exposed to the risks associated with the current economic situation. The Company will continue to monitor the possible impact on its business and strategy and will make adjustments as necessary.

Contractual Obligations
The following is a summary of the Company's contractual obligations and commitments at December 31, 2009:

($000s)	Total	Less than 1 year	1 – 3 years	After 3 years
Revolving credit facility	52,355	52,355	-	-
Secured bridge facility	20,243	20,243	-	-
Office leases	1,605	763	797	45
Field equipment leases	344	173	171	-
Firm transportation agreements	1,256	481	731	44
Capital processing agreements	500	-	-	500
Total contractual obligations	76,303	74,015	1,699	589

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

(000s)	December 31, 2009	March 22, 2010
Voting common shares	65,084	65,116
Options	6,072	5,987
Warrants	3,604	3,604
Total	74,760	74,707

Summary of Quarterly Results

	Q4 2009	Q3 2009	Q2 2009	Q1 2009	Q4 2008	Q3 2008	Q2 2008	Q1 2008
Number of producing days	92	92	91	90	92	92	91	91
($000s, except per share amounts)								
Oil and natural gas sales	12,130	8,649	6,358	7,062	8,729	13,547	19,255	12,937
Funds from operations	3,972	1,752	1,884	1,717	3,463	7,724	11,953	7,467
per share - basic and diluted	0.06	0.03	0.04	0.04	0.09	0.23	0.36	0.23
Net earnings (loss) before extraordinary items	(4,155)	(3,919)	(3,193)	(3,305)	(2,511)	1,232	3,446	808
per share - basic and diluted	(0.06)	(0.06)	(0.07)	(0.08)	(0.07)	0.04	0.10	0.02
Net earnings (loss)	3,276	(3,919)	(3,193)	(3,305)	(2,511)	1,232	3,446	808
per share - basic and diluted	0.05	(0.06)	(0.07)	(0.08)	(0.07)	0.04	0.10	0.02

Oil and natural gas sales and funds from operations increased in Q4 2009 over the first three quarters of 2009 as a result of increased production stemming from the acquisition of Salvo on August 13, 2009. The Company had net earnings in Q4 2009 as a result of a $7.4 million gain that was recorded in relation to the acquisition of PrivateCo in 2008. The Company experienced a significant decline in quarterly sales, funds from operations, and net earnings in 2009 and the fourth quarter of 2008 compared to the first three quarters of 2008 as a result of a significant decline in oil, NGLs, and natural gas commodity prices.

Outlook

The information below represents Crocotta's guidance for 2010 based on management's best estimates and the assumptions noted below.

Estimated Average Daily Production	**Guidance 2010**
Oil and NGLs (bbls/d)	700
Natural gas (mcf/d)	10,500
Total (boe/d)	2,450

Estimated Financial Results	**Guidance 2010**
Oil and natural gas sales ($000s)	43,400
Funds from operations ($000s)	14,300
$ per share - basic	0.22
$ per share - diluted	0.19
Capital expenditures ($000s)	24,000
West Texas Intermediate ($US/bbl)	80.00
AECO Daily Spot Price ($Cdn/mcf)	5.75
U.S./Cdn Dollar Average Exchange Rate	0.9500

Sensitivity Analysis

The outlook is based on estimates of key external market factors. Crocotta's actual results will be affected by fluctuations in commodity prices as well as the U.S./Canadian dollar exchange rate. The following table provides a summary of estimates for 2010 of the sensitivity of Crocotta's funds from operations to changes in commodity prices and the U.S./Canadian dollar exchange rate.

	Guidance 2010	**Variance in Factor**	**Variance in Funds from Operations**
			($000s)
West Texas Intermediate ($US/bbl)	80.00	US $1.00/bbl	Cdn 200
AECO Daily Spot Price ($Cdn/mcf)	5.75	Cdn $0.10/mcf	Cdn 325
U.S./Cdn Dollar Average Exchange Rate	0.9500	Cdn $0.01	Cdn 167

Critical Accounting Policies
Management is required to make judgments, assumptions, and estimates in the application of generally accepted accounting principles that have a significant impact on the financial results of the Company. By their nature, these estimates are subject to change and the effect on the financial statements of changes in such estimates in future periods could be significant. The following summarizes the accounting policies that are critical to determining the Company's financial results.

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

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

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

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

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

Goodwill and Intangible Assets
Effective January 1, 2009, the Company adopted CICA Handbook Section 3064, *Goodwill and Intangible Assets*, which replaced the existing Goodwill and Intangible Assets standard. The new standard revises the requirement for recognition, measurement, presentation, and disclosure of intangible assets. The adoption of this standard has not had a material impact on the Company's financial statements.

Financial Instruments - Disclosures
Effective December 31, 2009, the Company adopted amendments to CICA Handbook Section 3862, *Financial Instruments – Disclosures*. The amendments include additional disclosure requirements about fair value measurements of financial instruments and liquidity risk. The adoption of these amendments has not had a material impact on the Company's financial statements.

Credit Risk and the Fair Value of Financial Assets and Financial Liabilities
In January 2009, the CICA issued EIC-173, *Credit Risk and the Fair Value of Financial Assets and Financial Liabilities*, which provides guidance that a company's own credit risk and the credit risk of a counterparty should be taken into consideration in determining the fair value of financial assets and financial liabilities, including derivative financial instruments. The application of this EIC has not had a material impact on the Company's financial statements.

Recent Accounting Pronouncements

Business Combinations
The CICA issued Handbook Section 1582, *Business Combinations*, which replaces the previous business combinations standard. Under this guidance, the purchase price used in a business combination is based on the fair value of shares exchanged at the market price at acquisition date. Under the current standard, the purchase price used is based on the market price of shares for a reasonable period before and after the date the acquisition is agreed upon and announced. In addition, the guidance generally requires all acquisition costs to be expensed. Current standards allow for the capitalization of these costs as part of the purchase price. This new Section also addresses contingent liabilities, which will be required to be recognized at fair value on acquisition, and subsequently re-measured at each reporting period until settled. Currently, standards require only contingent liabilities that are payable to be recognized. The new guidance requires negative goodwill to be recognized in earnings rather than the current standard of deducting from non-current assets in the purchase price allocation. This standard applies prospectively to business combinations on or after January 1, 2011 with earlier application permitted. The Company is currently assessing the impact of the standard on potential future business combinations.

International Financial Reporting Standards (IFRS)
The Canadian Accounting Standards Board has confirmed that the use of IFRS will be required in 2011 for publicly accountable, profit-oriented enterprises. IFRS will replace current Canadian GAAP. The Company will be required to begin reporting under IFRS effective January 1, 2011 and will be required to provide information following IFRS for the comparative period. While IFRS uses a conceptual framework similar to Canadian GAAP, there are significant differences in accounting policies which must be addressed.

The Company has completed the diagnostic assessment phase of IFRS by comparing the differences between Canadian GAAP and IFRS. This assessment has provided insight into what are anticipated to be the most significant differences applicable to the Company. The Company is currently performing an in-depth review of the significant differences, identified during the preliminary assessment, in order to identify all specific Canadian GAAP and IFRS differences and select ongoing IFRS policies. The Company's external auditors have been and will continue to be involved throughout the process to ensure the Company's policies are in accordance with IFRS. The Company has determined that accounting for property, plant and equipment, impairment testing, asset retirement obligations, business combinations, stock-based compensation, and income taxes will be impacted by the conversion to IFRS. The impact of IFRS on the Company's consolidated financial statements is not reasonably determinable at this time. The Company plans to maintain both Candian GAAP and IFRS compliant financial statements in 2010.

In July 2009 an amendment to IFRS 1 First Time Adoption of International Reporting Standards was issued that applies to oil and gas assets. The amendment allows an entity that used full cost accounting under its previous GAAP to elect to measure oil and gas assets, including exploration and evaluation assets and development and production assets, at values determined under their previous GAAP with development and production assets being allocated pro rata values using reserve volumes or reserve values as of the date of adoption, providing that all assets are tested for impairment on adoption. The Company expects that it will use this exemption.

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

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

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

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

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

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

Foreign exchange risk
The prices received by the Company for the production of crude oil, natural gas, and NGLs are primarily determined in reference to U.S. dollars, but are settled with the Company in Canadian dollars. The Company's cash flow from commodity sales will therefore be impacted by fluctuations in foreign exchange rates. The Company currently does not have any foreign exchange contracts in place.

Interest rate risk
The Company is exposed to interest rate risk as it borrows funds at floating interest rates. In addition, the Company will at times issue shares on a flow-through basis. This results in the Company being exposed to interest rate risk to the Canada Revenue Agency for interest on unexpended funds on the Company's flow-through share obligations. The Company currently does not use interest rate hedges or fixed interest rate contracts to manage the Company's exposure to interest rate fluctuations.

Commodity price risk
The Company's oil, natural gas, and NGLs production is marketed and sold on the spot market to area aggregators based on daily spot prices that are adjusted for product quality and transportation costs. The Company's cash flow from product sales will therefore be impacted by fluctuations in commodity prices. From time to time the Company may attempt to mitigate commodity price risk through the use of financial derivatives. Commencing September 2009, the Company entered into commodity price hedges in the form of monthly settled puts ("Floors"), as previously outlined.

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

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

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, 2009. The Company's CEO and CFO have concluded that, based on their evaluation, the Company's disclosure controls and procedures are effective to provide reasonable assurance that all material or potentially material information related to the Company is made known to them and is disclosed in a timely manner if required.

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

The Company evaluated the effectiveness of our internal control over financial reporting as of December 31, 2009. In making this evaluation, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. The Company's CEO and CFO have concluded that, based on their evaluation, the Company's internal control over financial reporting was effective as of December 31, 2009. No material changes in the Company's internal controls over financial reporting were identified during the most recent reporting period that have materially affected, or are likely to material affect, the Company's internal controls over financial reporting.

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

Management's Report

To the Shareholders of Crocotta Energy Inc.

The accompanying consolidated financial statements of Crocotta Energy Inc. and all other financial and operating information in this 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 this 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
March 22, 2010

Auditors' Report

To the Shareholders of Crocotta Energy Inc.

We have audited the consolidated balance sheets of Crocotta Energy Inc. as at December 31, 2009 and 2008 and the consolidated statements of operations, comprehensive earnings (loss) and retained earnings (deficit) and cash flows for the years then ended. 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 audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consoldiated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated 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, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

signed "KPMG LLP"

Chartered Accountants

Calgary, Canada
March 22, 2010

Crocotta Energy Inc.

Consolidated Balance Sheets

As at December 31,	2009	2008
($000s)		
Assets		
Current assets:		
Cash and cash equivalents	**1,854**	-
Accounts receivable	**5,042**	5,982
Prepaid expenses and deposits	**1,443**	1,452
	8,339	7,434
Oil and natural gas properties and equipment (note 5)	**245,562**	180,553
Future income tax asset (note 9)	**255**	-
	254,156	187,987
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	**6,397**	12,296
Revolving credit facility (note 6)	**52,355**	15,650
Secured bridge facility (note 6)	**20,243**	-
Risk management contracts (note 12(b))	**1,042**	-
Current portion of capital lease (note 7)	**-**	432
	80,037	28,378
Asset retirement obligations (note 8)	**10,084**	4,158
Deferred gain (note 2(b))	**-**	7,431
Future income tax liability (note 9)	**-**	1,595
Shareholders' equity:		
Capital stock (note 10)	**166,632**	144,593
Contributed surplus (note 10)	**3,714**	1,002
Retained earnings (deficit)	**(6,311)**	830
	164,035	146,425
Subsequent events (notes 3 and 6)		
Commitments (note 14)		
	254,156	187,987

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, Comprehensive Earnings (Loss), and Retained Earnings (Deficit)

Year Ended December 31,	**2009**	2008
($000s, except per share amounts)		
Revenue:		
Oil and natural gas sales	**34,199**	54,468
Royalties	**(7,024)**	(10,952)
	27,175	43,516
Realized loss on risk management contracts (note 12(b))	**(209)**	-
Unrealized loss on risk management contracts (note 12(b))	**(1,042)**	-
	25,924	43,516
Expenses:		
Production	**9,413**	7,777
Transportation	**1,102**	862
General and administrative	**4,408**	3,668
Interest	**2,718**	602
Depletion, depreciation and accretion	**24,599**	24,776
Stock-based compensation	**2,403**	670
Goodwill impairment (note 4)	**-**	607
	44,643	38,962
Earnings (loss) before income taxes and extraordinary item	**(18,719)**	4,554
Income Taxes:		
Future income tax expense (recovery)	**(4,147)**	1,580
Earnings (loss) before extraordinary item	**(14,572)**	2,974
Extraordinary Item:		
Gain on contingent consideration (note 2(b))	**7,431**	-
	7,431	-
Net earnings (loss) and comprehensive earnings (loss)	**(7,141)**	2,974
Retained earnings (deficit), beginning of year	**830**	(2,144)
Retained earnings (deficit), end of year	**(6,311)**	830
Earnings (loss) per share before extraordinary item:		
Basic and diluted	**(0.28)**	0.09
Net earnings (loss) per share:		
Basic and diluted	**(0.14)**	0.09

See accompanying notes to the consolidated financial statements

Crocotta Energy Inc.

Consolidated Statements of Cash Flows

Year Ended December 31,	**2009**	2008
($000s)		
Cash provided by (used in):		
Operating:		
Earnings (loss) before extraordinary item	**(14,572)**	2,974
Items not affecting cash:		
Depletion, depreciation and accretion	**24,599**	24,776
Stock-based compensation	**2,403**	670
Unrealized loss on risk management contracts (note 12(b))	**1,042**	**-**
Future income tax expense (recovery)	**(4,147)**	1,580
Goodwill impairment (note 4)	**-**	607
	9,325	30,607
Asset retirement expenditures	**(163)**	(122)
Net change in non-cash working capital	**950**	(2,733)
	10,112	27,752
Financing:		
Issuance of capital stock	**1,260**	9,000
Share issue costs	**(34)**	(643)
Revolving credit facility	**36,705**	9,800
Secured bridge facility	**(4,757)**	-
Capital lease payments	**(432)**	(218)
	32,742	17,939
Investing:		
Purchase and development of oil and natural gas properties and equipment	**(15,644)**	(58,964)
Disposition of oil and natural gas properties and equipment (note 3)	**10,553**	5,579
Business combinations (note 2)	**(30,192)**	7,382
Net change in non-cash investing working capital	**(5,717)**	(2,691)
	(41,000)	(48,694)
Change in cash and cash equivalents	**1,854**	(3,003)
Cash and cash equivalents, beginning of year	**-**	3,003
Cash and cash equivalents, end of year	**1,854**	-

See accompanying notes to the consolidated financial statements

1. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of presentation

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

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

b) Oil and natural gas properties and equipment

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

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

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

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

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

c) Office and other equipment

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

d) Goodwill

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

e) Asset retirement obligations ("ARO")

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

f) Flow-through shares

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

g) Stock-based compensation

The Company has a stock-based compensation plan, which is described in note 10(e). The Company applies the fair value method for valuing stock options granted to officers, directors, employees and consultants. Under this method, compensation cost attributable to stock options granted to officers, directors, employees and consultants is measured at fair value and expensed over the vesting period with a corresponding increase to contributed surplus. Upon the exercise of the stock options, consideration paid together with the amount previously recognized in contributed surplus is recorded as an increase to share capital. The Company does not incorporate an estimated forfeiture rate for stock options that will not vest, but instead accounts for forfeitures as a change in estimate in the period in which they occur. In the event that vested stock options expire without being exercised, previously recognized compensation costs associated with such stock options are not reversed.

h) Revenue recognition

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

i) 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.

j) Income taxes

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

k) 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.

l) Financial instruments

Financial assets, financial liabilities and non-financial derivatives are measured at fair value on initial recognition. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables, or other financial liabilities. Financial assets and financial liabilities classified as “held-for-trading” are measured at fair value with changes in those fair values recognized in net earnings. Financial assets classified as “available-for-sale” are measured at fair value, with changes in those fair values recognized in other comprehensive income (“OCI”). Financial assets classified as “held-to-maturity”, “loans and receivables” and “other financial liabilities” are measured at amortized cost using the effective interest method of amortization.

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

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

m) Use of estimates

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

n) New accounting standards adopted

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

Goodwill and Intangible Assets
Effective January 1, 2009, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3064, *Goodwill and Intangible Assets*, which replaced the existing Goodwill and Intangible Assets standard. The new standard revises the standard for recognition, measurement, presentation, and disclosure of intangible assets. The adoption of this standard has not had a material impact on the Company's financial statements.

Financial Instruments - Disclosures
Effective December 31, 2009, the Company adopted amendments to CICA Handbook Section 3862, *Financial Instruments – Disclosures*. The amendments include additional disclosure requirements about fair value measurements of financial instruments and liquidity risk. The adoption of these amendments has not had a material impact on the Company's financial statements.

Credit Risk and the Fair Value of Financial Assets and Financial Liabilities
In January 2009, the CICA issued EIC-173, *Credit Risk and the Fair Value of Financial Assets and Financial Liabilities*, which provides guidance that a company's own credit risk and the credit risk of a counterparty should be taken into consideration in determining the fair value of financial assets and financial liabilities, including derivative financial instruments. The application of this EIC has not had a material impact on the Company's financial statements.

o) Recent accounting pronouncements

Business Combinations
The CICA issued Handbook Section 1582, *Business Combinations*, which replaces the previous business combinations standard. Under this guidance, the purchase price used in a business combination is based on the fair value of shares exchanged at the market price at acquisition date. Under the current standard, the purchase price used is based on the market price of shares for a reasonable period before and after the date the acquisition is agreed upon and announced. In addition, the guidance generally requires all acquisition costs to be expensed. Current standards allow for the capitalization of these costs as part of the purchase price. This new Section also addresses contingent liabilities, which will be required to be recognized at fair value on acquisition, and subsequently re-measured at each reporting period until settled. Currently, standards require only contingent liabilities that are payable to be recognized. The new guidance requires negative goodwill to be recognized in earnings rather than the current standard of deducting from non-current assets in the purchase price allocation. This standard applies prospectively to business combinations on or after January 1, 2011 with earlier application permitted. The Company is currently assessing the impact of the standard on potential future business combinations.

International Financial Reporting Standards (IFRS)
The Canadian Accounting Standards Board has confirmed that the use of IFRS will be required in 2011 for publicly accountable, profit-oriented enterprises. IFRS will replace current Canadian GAAP. The Company will be required to begin reporting under IFRS effective January 1, 2011 and will be required to provide information following IFRS for the comparative period.

2. ACQUISITIONS

a) Salvo Energy Corporation
On August 13, 2009, the Company closed a business combination (the "Acquisition") whereby it acquired all of the issued and outstanding shares of Salvo Energy Corporation ("Salvo"). Prior to the Acquisition, Salvo acquired certain oil and natural gas assets from an Alberta-based company on July 31, 2009 (the "Asset Acquisition"). Consideration for the Asset Acquisition was cash of approximately $37.8 million which was financed through a new secured bridge loan facility to Salvo and an increase to Crocotta's existing revolving operating demand loan credit facility. Salvo obtained a $25.0 million secured bridge facility (note 6), proceeds from which were used to repay Salvo's existing credit facility and to partially fund the Asset Acquisition. Crocotta obtained an increase in its revolving operating demand loan credit facility (note 6) and advanced Salvo $29.8 million (prior to the close of the Acquisition) to facilitate the close of the Asset Acquisition.

The following table details the purchase price allocation for the Acquisition, which is subject to final adjustments:

Net assets acquired	**Amount**
Oil and natural gas properties and equipment	84,544
Working capital, including cash of $0.1 million	286
Due to Crocotta	(29,750)
Bridge facility	(25,000)
Asset retirement obligation	(6,531)
Future income tax asset	78
	23,627

Consideration of acquisition	
Issuance of 19,898,760 common shares (note 10(b))	23,083
Transaction costs	544
	23,627

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

b) Private Company

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

Net assets acquired	**Amount**
Oil and natural gas properties and equipment	3,237
Working capital, including cash of $10.7 million	9,752
Asset retirement obligation	(778)
Future income tax asset	5,345
Deferred gain	(7,431)
	10,125

Consideration of acquisition	
Issuance of 4,199,454 common shares (note 10(b))	9,911
Transaction costs	214
	10,125

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

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

In accordance with accounting principles generally accepted in Canada, the Company recorded a deferred gain in the financial statements as at December 31, 2008 to reflect the potential liability to pay the additional consideration. This contingent payment could be satisfied through the issuance of a maximum of 0.8 million additional Crocotta common shares to PrivateCo shareholders. Any excess consideration to be paid to PrivateCo shareholders could be paid in cash. The oil and natural gas properties acquired were not sold within 12 months of closing of the business combination. As a result, the Company removed the previously recorded deferred gain from the balance sheet and recorded an extraordinary gain to earnings in the year ended December 31, 2009.

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

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

Net assets acquired	Amount
Oil and natural gas properties and equipment	13,337
Non-cash working capital deficit	(901)
Asset retirement obligation	(106)
Future income tax liability	(2,166)
Goodwill (note 4)	607
	10,771

Consideration of acquisition	
Cash	2,930
Issuance of 2,741,472 common shares (note 10(b))	7,621
Transaction costs	220
	10,771

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

3. PROPERTY DISPOSITIONS

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

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

Subsequent to December 31, 2009, the Company sold certain oil and natural gas properties to an unrelated party for cash proceeds of approximately $19.5 million.

2008
During the year, the Company sold certain oil and natural gas properties to three unrelated parties for cash proceeds of approximately $5.6 million. The following table details the allocation of the proceeds on disposition:

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

4. GOODWILL

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

5. OIL AND NATURAL GAS PROPERTIES AND EQUIPMENT

	2009	2008
Oil and natural gas properties	**302,070**	212,185
Equipment under capital lease (note 7)	**-**	763
Office and other equipment	**347**	329
	302,417	213,277
Accumulated depletion and depreciation	**(56,855)**	(32,724)
Net Book Value	**245,562**	180,553

As at December 31, 2009, the cost of oil and natural gas properties includes approximately $36.4 million (December 31, 2008 – $38.0 million) relating to properties from which there is no production and no reserves assigned and which have been excluded from costs subject to depletion and depreciation. During the year ended December 31, 2009, the provision for depletion, depreciation and accretion includes $0.5 million (2008 – $0.2 million) for accretion of asset retirement obligations and $0.1 million (2008 – $0.1 million) for amortization of equipment under capital lease. During the year ended December 31, 2009, the Company capitalized $0.7 million (2008 – $0.6 million) of general and administrative costs and $0.3 million (2008 - $0.1 million) of stock-based compensation.

The Company performed an impairment test calculation at December 31, 2009 to assess the recoverable value of the oil and natural gas properties. The oil and natural gas future prices are based on January 1, 2010 commodity price forecasts of the Company's independent reserve evaluators. These prices have been adjusted for commodity price differentials specific to the Company. The following table summarizes the benchmark prices used in the impairment test calculation. Based on these assumptions, there was no impairment at December 31, 2009.

Year	WTI Oil ($US/bbl)	Foreign Exchange Rate	Edmonton Light Crude Oil ($Cdn/bbl)	AECO Gas ($Cdn/mmbtu)
2010	80.00	0.950	83.26	5.96
2011	83.00	0.950	86.42	6.79
2012	86.00	0.950	89.58	6.89
2013	89.00	0.950	92.74	6.95
2014	92.00	0.950	95.90	7.05
2015	93.84	0.950	97.84	7.16
2016	95.72	0.950	99.81	7.42
2017	97.64	0.950	101.83	7.95
2018	99.59	0.950	103.88	8.52
2019	101.58	0.950	105.98	8.69
Escalate Thereafter	2.0% per year		2.0% per year	2.0% per year

6. CREDIT FACILITIES

At December 31, 2009, the Company had total credit facilities of $75.2 million, consisting of a $55.0 million revolving operating demand loan credit facility with a Canadian chartered bank and a $20.2 million secured bridge facility. The demand loan credit facility bears interest at prime plus a range of 0.25% to 3.25% and is secured by a $125 million fixed and floating charge debenture on the assets of the Company and its subsidiaries. The next review of the demand loan credit facility by the bank is scheduled on or before September 30, 2010. At December 31, 2009, $52.4 million (December 31, 2008 – $15.7 million) had been drawn on the demand loan credit facility.

The Company acquired a $25.0 million secured bridge facility in conjunction with the Acquisition (note 2(a)). This bridge facility bears interest at 8% and is secured by a charge on the assets of Crocotta and its subsidiaries. At December 31, 2009, $4.8 million had been repaid on the fully drawn $25.0 million bridge facility leaving a balance of $20.2 million. The bridge facility had a maturity date of December 31, 2009. The Company obtained an extension on the bridge facility and subsequent to December 31, 2009, the Company sold certain non-core oil and natural gas properties for approximately $19.5 million and used the proceeds to retire the bridge facility.

In conjunction with the retirement of the secured bridge facility, the demand loan credit facility was increased to $65.0 million.

7. CAPITAL LEASE OBLIGATION

During the year, the Company paid out the remaining balance on its lease obligation for a field compression facility. The lease obligation had an implicit interest rate of 7.9% and monthly instalments on the lease amounted to $21,766. Security for the lease was the equipment itself and the term of the lease was three years, with a December 2009 expiry.

8. ASSET RETIREMENT OBLIGATIONS

The Company's asset retirement obligations result from net ownership interests in oil and natural gas properties including well sites, gathering systems, and processing facilities. The Company estimates the total undiscounted amount of cash flows (adjusted for inflation at 2% per year) required to settle its asset retirement obligations is approximately $27.7 million which is estimated to be incurred between 2010 and 2039. 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:

	2009	2008
Balance, beginning of year	**4,158**	3,050
Liabilities acquired upon business combination (note 2)	**6,531**	884
Liabilities incurred in period	**135**	269
Liabilities disposed through property dispositions (note 3)	**(1,146)**	(229)
Liabilities settled in period	**(62)**	(36)
Accretion expense	**468**	220
Balance, end of year	**10,084**	4,158

9. TAXES

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

	2009	2008
Income tax rate	**29.0%**	29.5%
Expected income tax expense (recovery)	**(5,428)**	1,343
Increase (decrease) in income taxes resulting from:		
Goodwill impairment	**-**	179
Stock-based compensation and other non-deductible amounts	**699**	201
Rate reduction and other	**582**	82
Valuation allowance	**-**	(225)
	(4,147)	1,580

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

	2009	2008
Future income tax assets (liabilities):		
Oil and natural gas properties and equipment	**(9,606)**	(5,879)
Asset retirement obligations	**2,521**	1,053
Risk management contracts	**261**	-
Capital lease	**-**	109
Share issue costs	**401**	634
Non-capital losses	**7,916**	3,865
Capital losses	**225**	227
Valuation allowance	**(1,463)**	(1,604)
Net future income tax asset (liability)	**255**	(1,595)

The Company has accumulated non-capital losses for income tax purposes of approximately $31.1 million (2008 – $15.3 million), which can be used to offset income in future periods. These losses expire as follows:

Year of expiry	**Amount**
2027	15,201
2025	9,330
2024	6,547
2010	584
Valuation allowance	(584)
	31,078

10. SHARE CAPITAL

a) Authorized

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

b) Issued and outstanding

	Number	Amount
Voting common shares		
Balance at December 31, 2007	33,045	119,838
Acquisition of Black Bore (note 2(c))	2,741	7,621
Acquisition of PrivateCo (note 2(b))	4,199	9,911
Private placement of flow-through shares	4,000	9,000
Share issue costs (net of future tax effect of $0.2 million)	-	(475)
Future tax effect of flow-through share renunciation	-	(1,302)
Balance at December 31, 2008	43,985	144,593
Issued upon acquisition of Salvo (note 2(a))	19,899	23,083
Private placement	1,200	1,260
Share issue costs, net of future tax effect	-	(26)
Future tax effect of flow-through share renunciation	-	(2,278)
Balance at December 31, 2009	65,084	166,632

During the first quarter of 2009, the Company renounced $9.0 million in flow-through share obligations, relating to flow-through share issuances in December 2008. During the year ended December 31, 2009, the $9.0 million in flow-through share obligations had been spent on qualified capital expenditures.

On October 29, 2009, the Company completed a private placement issuance of 1.2 million units (the "Units") at a price of $1.05 per Unit to management of the Company. Each Unit consists of one common share of Crocotta and one common share purchase warrant that will allow the holder to purchase an additional common share at a price of $1.40 per share for a period of three years from the date of issuance of the Unit.

c) Contributed surplus

	Year Ended December 31, 2009	Year Ended December 31, 2008
Balance, beginning of year	**1,002**	203
Stock-based compensation - expensed	**2,403**	670
Stock-based compensation - capitalized	**309**	129
Balance, end of year	**3,714**	1,002

d) Warrants

The Company has an arrangement that allows warrants to be issued to directors, officers, and employees. The maximum number of common shares that may be issued, and that have been reserved for issuance under this arrangement, is 2.4 million. Warrants granted under this arrangement vest over three years and have exercise prices ranging from $3.75 per share to $6.75 per share. During the year ended December 31, 2007, the Company issued 2.4 million warrants under this arrangement. The fair value of the warrants granted under this arrangement at the date of issue was determined to be $nil using the minimum value method as they were issued prior to the Company becoming publicly traded. During 2009, approval was obtained to extend the expiry date of the warrants to December 23, 2012. The fair value of the extension of the warrants granted under this arrangement was determined using the Black-Scholes option-pricing model (note 10(f)).

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 (note 10(b)). The fair value of the warrants granted under this arrangement was determined using the Black-Scholes option-pricing model (note 10(f)).

The Company had the following warrants outstanding at December 31, 2009:

	Number of Warrants	Weighted Average Price ($)	Exercisable at December 31, 2009	Expiry Date
Warrants				
- issued at $1.40 per share	1,200	1.40	1,200	October 29, 2012
- issued at $3.75 per share	747	3.75	747	December 23, 2012
- issued at $4.05 per share	21	4.05	21	December 23, 2012
- issued at $4.50 per share	781	4.50	781	December 23, 2012
- issued at $5.25 per share	54	5.25	54	December 23, 2012
- issued at $6.00 per share	747	6.00	747	December 23, 2012
- issued at $6.75 per share	54	6.75	54	December 23, 2012
	3,604	3.67	3,604	

e) Stock options

The Company has authorized and reserved for issuance 6.5 million common shares under a stock option plan enabling certain officers, directors, employees, and consultants to purchase common shares. The Company will not issue options exceeding 10% of the shares outstanding at the time of the option grants. Under the plan, the exercise price of each option equals the market price of the Company's shares on the date of the grant. The options vest over a period of 3 years and an option's maximum term is 5 years. As at December 31, 2009, 6.1 million options have been granted and are outstanding at prices ranging from $1.10 to $3.75 per share with expiry dates ranging from January 23, 2012 to September 17, 2014.

The Company had the following stock options outstanding at December 31, 2009:

	Number of Options	Weighted Average Price ($)
Balance at December 31, 2007	2,727	3.01
Options granted	466	2.97
Options cancelled	(148)	3.00
Balance at December 31, 2008	3,045	3.00
Options granted	3,027	1.16
Balance at December 31, 2009	6,072	2.08
Exercisable at December 31, 2009	1,921	3.01

Exercise Price ($)		Options Outstanding			Options Exercisable		
Low	High	Number	Weighted Average Years to Expiry	Weighted Average Price ($)	Number	Weighted Average Years to Expiry	Weighted Average Price ($)
1.10	2.99	3,127	4.46	1.19	33	3.86	2.10
3.00	3.75	2,945	2.67	3.03	1,888	2.64	3.02
		6,072	3.59	2.08	1,921	2.66	3.01

f) Stock-based compensation

Stock options

The compensation cost charged to earnings during the year ended December 31, 2009 for the stock option plan was $1.1 million (2008 - $0.7 million).

The Company granted 3.0 million options during the year ended December 31, 2009 (2008 – 0.5 million). The fair value of each option granted during the year ended December 31, 2009 was determined using the Black-Scholes option-pricing model with the following weighted average assumptions:

	Year Ended December 31, 2009	Year Ended December 31, 2008
Fair value per option	**$0.80**	$1.43
Risk-free rate	**2.0%**	3.1%
Expected life	**4.0 years**	4.0 years
Expected volatility	**99.3%**	61.7%
Dividend yield	**-**	-

Warrants

The compensation cost charged to earnings during the year ended December 31, 2009 for warrants issued was $1.3 million (2008 - $nil).

The Company extended the term of 2.4 million warrants issued in 2007 and issued 1.2 million warrants during the year ended December 31, 2009 (2008 – nil). The fair value of the each warrant extended and each warrant granted during the year ended December 31, 2009 was determined using the Black-Scholes option-pricing model with the following weighted average assumptions:

	Year Ended December 31, 2009	Year Ended December 31, 2008
Fair value per warrant	**$0.39**	-
Risk-free rate	**1.6%**	-
Expected life	**3.5 years**	-
Expected volatility	**102.6%**	-
Dividend yield	**-**	-

g) Per share information

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

	Year Ended December 31, 2009	Year Ended December 31, 2008
Basic and diluted	**51,883**	34,338

11. CAPITAL DISCLOSURES

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

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

	December 31, 2009	December 31, 2008
Shareholders' equity	**164,035**	146,425
Net debt	**70,656**	20,944

In addition, management prepares annual, quarterly, and monthly budgets, which are updated depending on varying factors such as general market conditions and successful capital deployment.

The Company's share capital is not subject to external restrictions; however, the Company's revolving operating demand loan credit facility includes a covenant requiring the Company to maintain a working capital ratio of not less than one-to-one. The working capital ratio, as defined by its creditor, is calculated as current assets plus any undrawn amounts available on its credit facilities less current liabilities excluding any current portion drawn on the credit facility. The Company was fully compliant with this covenant at December 31, 2009.

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

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

a) Fair value of financial instruments

The Company's financial assets and financial liabilities are comprised of cash and cash equivalents, accounts receivable, prepaid expenses and deposits, accounts payable and accrued liabilities, capital lease obligations (note 7), risk management contracts, and amounts drawn on the revolving credit facility and secured bridge facility (note 6). The fair values of the Company's financial assets and financial liabilities approximate their carrying amount due to the short-term maturity of these instruments.

b) Market risk

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

Foreign exchange risk

The prices received by the Company for the production of crude oil, natural gas, and NGLs are primarily determined in reference to U.S. dollars, but are settled with the Company in Canadian dollars. The Company's cash flow from commodity sales will therefore be impacted by fluctuations in foreign exchange rates. A $0.01 increase or decrease in the Canadian/U.S. dollar exchange rate would have impacted net earnings and other comprehensive income by approximately $0.2 million for the year ended December 31, 2009 (2008 - $0.3 million).

Interest rate risk

The Company is exposed to interest rate risk as it borrows funds at floating interest rates (note 6). In addition, the Company is exposed to interest rate risk to the Canada Revenue Agency for interest on unexpended funds on the Company's flow-through share obligations. The Company currently does not use interest rate hedges or fixed interest rate contracts to manage the Company's exposure to interest rate fluctuations. A 100 basis point increase or decrease in interest rates would have impacted net earnings and other comprehensive income by approximately $0.4 million for the year ended December 31, 2009 (2008 - $0.1 million).

Commodity price risk

The Company's oil, natural gas, and NGLs production is marketed and sold on the spot market to area aggregators based on daily spot prices that are adjusted for product quality and transportation costs. The Company's cash flow from product sales will therefore be impacted by fluctuations in commodity prices. From time to time the Company may attempt to mitigate commodity price risk through the use of financial derivatives.

At December 31, 2009, the Company had the following risk management contracts outstanding:

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

For the year ended December 31, 2009, the realized gain on the risk management contracts was $0.2 million (2008 - $nil) and the unrealized loss on the risk management contracts was $1.0 million (2008 - $nil). The fair value of the risk management contracts at December 31, 2009 was a liability of $1.0 million. The fair value of the risk management contracts has been determined using information classified as level two. Level two valuations are based on inputs, including quoted forward prices for commodities, time value, and volatility factors, which can be substantially observed or corroborated in the marketplace.

A $1.00/boe increase or decrease in commodity prices would have impacted net earnings and other comprehensive income by approximately $0.5 million for the year ended December 31, 2009 (2008 - $0.5 million).

c) Credit risk

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

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

The maximum exposure to credit risk is represented by the carrying amount on the balance sheet. At December 31, 2009, there are no material financial assets that the Company considers impaired.

d) Liquidity risk

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

The following are the contractual maturities of financial liabilities at December 31, 2009:

Financial Liability	Less than 1 Year	1 to less than 2 Years	Thereafter	Total
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	1,450	-	-	1,450
	80,445	-	-	80,445

Subsequent to December 31, 2009, the Company repaid the secured bridge facility with funds obtained from the sale of certain oil and natural gas properties (note 3) and obtained an increase in its operating demand loan credit facility to $65.0 million.

13. SUPPLEMENTAL CASH FLOW INFORMATION

a) Net change in non-cash working capital

	Year Ended December 31, 2009	Year Ended December 31, 2008
Accounts receivable	**940**	2,432
Prepaid expenses and deposits	**9**	(86)
Accounts payable and accrued liabilities	**(5,899)**	(5,874)
Non-cash working capital deficiency acquired on Acquisitions (see Note 2)	**183**	(1,896)
Net change in non-cash working capital	**(4,767)**	(5,424)
Relating to:		
Investing	**(5,717)**	(2,691)
Operating	**950**	(2,733)
Net change in non-cash working capital	**(4,767)**	(5,424)

b) Interest and taxes

	Year Ended December 31, 2009	Year Ended December 31, 2008
Cash interest received	**90**	20
Cash interest paid	**(2,808)**	(622)
	(2,718)	(602)
Cash taxes paid	**-**	-

14. COMMITMENTS

The following is a summary of the Company's contractual obligations and commitments at December 31, 2009:

	2010	**2011**	**2012**	**2013**	**2014**	**Thereafter**	**Total**
Office leases	763	662	135	45	-	-	1,605
Field equipment leases	173	171	-	-	-	-	344
Firm transportation agreements	481	410	321	44	-	-	1,256
Capital processing agreements	-	-	-	-	-	500	500
	1,417	1,243	456	89	-	500	3,705

CORPORATE INFORMATION

OFFICERS AND DIRECTORS

Robert J. Zakresky, CA
President, CEO & Director

Nolan Chicoine, MPAcc, CA
VP Finance & CFO

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

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

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

Helmut R. Eckert, P.Land
VP Land

Kevin Keith
VP Production

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

Daryl H. Gilbert, P.Eng.
Director

Don Cowie
Director

Brian Krausert
Director

Gary W. Burns
Director

Don D. Copeland, P.Eng.
Director

Brian Boulanger
Director

Patricia Phillips
Director

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

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

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

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

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

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

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

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

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